AVENG

ANNUAL REPORT 2006

Building sustainable value

Pronounced Av-eng (previously Anglovaal Engineering), the group was listed on the JSE in July 1999. Aveng does not have a controlling shareholder, being broadly held by the public and a number of institutional shareowners with approximately 33% owned by international investors.

Aveng boasts a proud South African heritage going back 117 years to a small construction company owned by James Thompson on the corner of Main and Rissik Streets, Johannesburg. Excluding the 1 848 Holcim (South Africa) employees, the group provides jobs to 28 986 people, 24 488 being employees of the group and 4 498 being labour only sub-contractors. It has built an international presence, in pursuit of its vision. During the year under review Aveng worked in 29 countries.

Due to the cyclical and country-specific risks associated with construction, Aveng has sought to balance its construction interests geographically and through a significant exposure to the more stable earnings profiles of its South African based steel beneficiation and cement manufacturing businesses.

Cover Picture:

The iThemba Lethu shaft at Sasol's Middelbult Coal Mine near Evander. This 140 metre deep shaft was sunk by Grinaker-LTA Underground Mining Contracting and is the largest oval shaft ever sunk in southern Africa.

AVENG

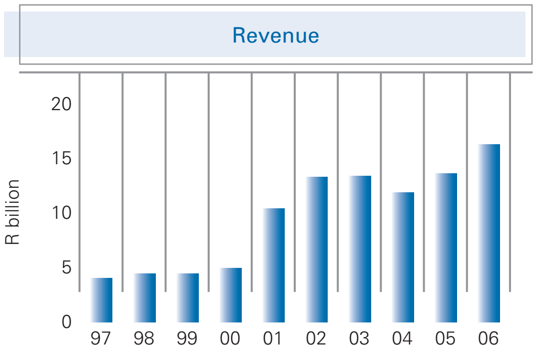
"We wish to be a value-driven construction, steel and cement group leveraging best-in-class construction capabilities across subsidiaries and associates in selected areas of the developing world".

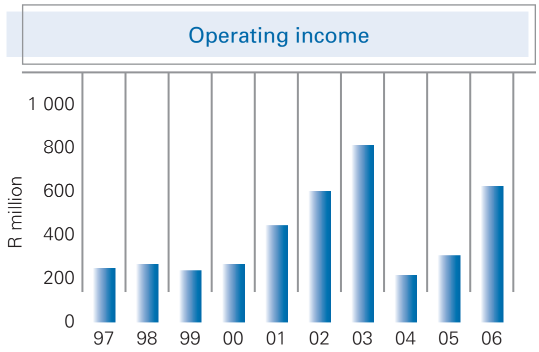
In summary

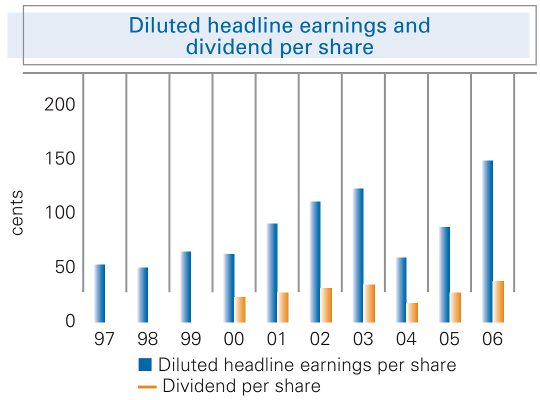
"A globally-competitive construction-related group focused principally on the developing world".

www.aveng.co.za

Financial highlights







Restated 2005 US $m	**2006 US $m**		**2006 Rm**	Restated 2005 Rm	% change
		FINANCIAL RESULTS			
2 173	**2 481**	Revenue	**16 054**	13 535	19
47	**95**	Operating profit	**613**	291	111
52	**93**	Headline earnings	**603**	323	87
		ORDINARY SHARE PERFORMANCE (Cents per share)			
13,3	**23,9**	Headline earnings	**154,9**	83,0	87
14,3	**23,3**	Earnings	**151,0**	88,9	70
3,7	**5,9**	Dividend	**38,0**	23,0	65
		CASH FLOW			
93	**231**	Net cash generated by operations	**1 493**	577	159
		EXCHANGE RATE			
		Rand to US $ – Closing rate	**7,15**	6,68	7
		– Average rate	**6,47**	6,23	4
		Rand to AUD $ – Closing rate	**5,30**	5,09	4
		– Average rate	**4,83**	4,67	4

AVENG

Engineering, Construction and Contract Mining Cluster

The group's **construction cluster** is made up of Grinaker-LTA Construction, focused on southern Africa and McConnell Dowell Corporation, our Australian-based company, active in Australasia and the Pacific. E+PC (Engineering & Projects Company) offers a comprehensive range of engineering and project management services to mining and energy sector clients. Moolmans provides opencast mining services to major mining groups across the African continent. Construction projects include power stations, pipelines, underground mining, casinos, shopping malls, roads, dams, harbours and a wide range of other commercial and industrial installations. While the group continues to execute a broad range of projects, strategic construction capability is increasingly being focused around serving the mining, energy and heavy infrastructure markets.

Revenue: R10,5 billion

22% increase in 2006

	2006 Rm	Restated 2005 Rm	% change
Revenue	10 453,2	8 560,6	22
Operating profit	(57,7)	(182,4)	68
Assets	4 208,9	4 205,9	—
Capex	599,8	347,8	72
Employees	19 697	16 251	21

AVENG

Carl Grim/Chief Executive Officer
Dennis Gammie/Director: Finance

100%	75%	75%	75%
McConnell Dowell Corporation	Grinaker-LTA Construction	Moolmans	E+PC Engineering & Projects Company
Managing Director David Robinson	Managing Director Eddie du Rand	Managing Director Brian Wilmot	Chairman Nick Bell
Financial Director Dale Morrison	Financial Director Brian Barrow	Financial Director Peter Schumann	Managing Director Frank Saieva
			Financial Director Alistair Neely
Civil and Marine	Building	Opencast Mining Operations	Engineering Services
Electrical Maintenance	Property Development	Southern Africa	Project Management
Mechanical	Civil Engineering	West Africa	Metallurgical Operations
Pipelines	Roads and Earthworks	East Africa	MegChem (50%)
Tunnelling	Mechanical and Electrical		
	Underground Mining Contracting		

Steel and Allied Cluster

The **steel & allied cluster** is made up of Trident Steel, Manufacturing and the Aveng corporate office. It has a presence in the major cities across South Africa, offering services that include the supply of shaped blanks (e.g. steel cut to the shape of a car door) to the motor industry, a variety of steel and concrete products to the mining industry, specialised steels to the manufacturing sector and a broad range of structural and concrete reinforcing steel and other products to the construction industry. It also supplies Spoornet with rail sleepers and a range of maintenance services for its rail infrastructure.

Revenue: R5,6 billion

13% increase in 2006

	2006 Rm	Restated 2005 Rm	% change
Revenue	**5 600,5**	4 974,3	13
Operating profit	**670,6**	473,2	42
Assets	**3 472,1**	3 044,8	14
Capex	**160,7**	120,5	33
Employees	**4 791**	5 283	(9)

75% Manufacturing

Managing Director
Doug Keet

Financial Director
Peter Horsfield

Steeledale

Infraset

Duraset

Lennings Rail Services

75% Trident Steel

Managing Director
Ben Fourie

Deputy Managing Director
Richard Martin

Financial Director
Kevin Berthold

Service Centres

Coastal Outlets

Trident Sterling Tube

Trident Specialty Steel

Cement Cluster

Aveng's **cement interests** comprise a 46% stake in Holcim (South Africa) (Pty) Limited with the remaining 54% being held by Holcim Limited – the world's second largest cement manufacturer which operates in over 70 countries. Holcim (South Africa) owns three cement factories and the associated production facilities, a number of large aggregate operations and a broad network of ready mixed concrete plants.

Revenue: R4,5 billion

14% increase in 2006

	2006 Rm	Restated 2005 Rm	% change
Revenue	**4 534,6**	3 966,7	14
Operating profit	**1 156,1**	1 099,4	5
Assets	**2 127,3**	1 881,3	13
Capex	**387,8**	145,1	167
Employees	**1 848**	2 095	(12)

46% Holcim (South Africa)

Managing Director
Karl Meissner-Roloff

Chief Financial Officer
Dave King

Dudfield Factory

Ulco Factory

Blending Depots

Stone and Sand Quarries

Ready Mixed Concrete

Slagment

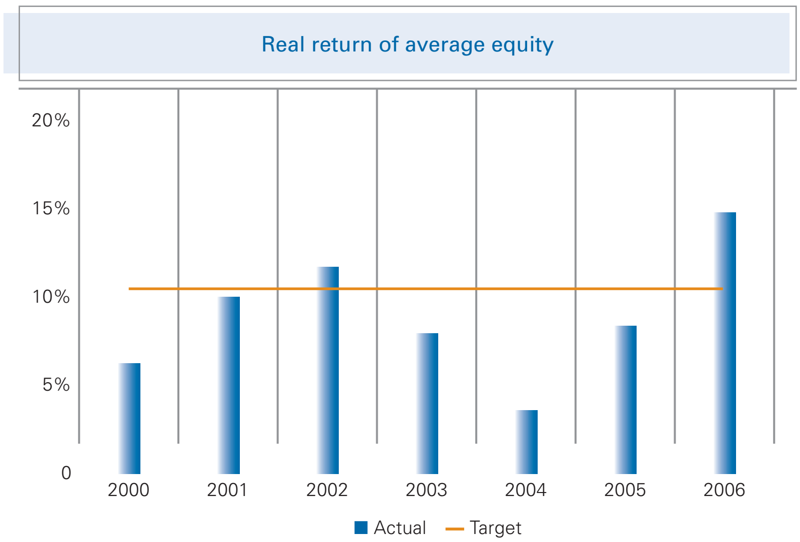
Tanga Cement (62,5%)

- To achieve a long-term return on average equity of CPIX +10%
- To achieve a long-term average annual growth in diluted headline earnings per share of CPIX +10%
- To maintain an average net debt to equity ratio of 35% in the longer term

1. Return on average equity (%)

		Average	2000	2001	2002	2003	2004	2005	2006
1. Return on average equity (%)	Actual	**15,0**	13,0	17,2	18,5	17,2	8,1	12,1	**18,9**
	CPIX	**6,3**	7,1	7,5	7,1	9,5	4,8	3,9	**4,3**
	Real	**8,7**	5,9	9,7	11,4	7,7	3,3	8,2	**14,6**

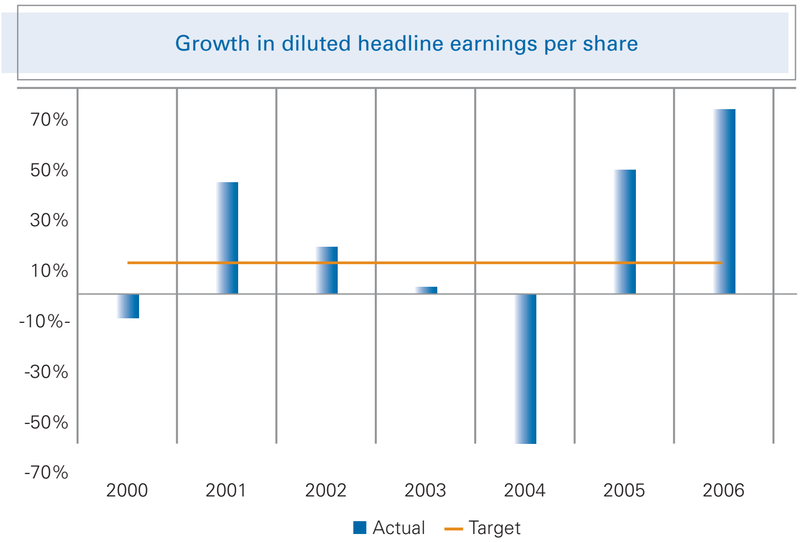
Target
To achieve a long-term return on average equity of CPIX +10%



		Average	2000	2001	2002	2003	2004	2005	2006
2. Growth in diluted headline earnings per share (%)	Actual	**21,6**	(2,5)	48,2	23,8	10,3	(53,4)	50,5	**74,6**
	CPIX	**6,3**	7,1	7,5	7,1	9,5	4,8	3,9	**4,3**
	Real	**15,3**	(9,6)	40,7	16,7	0,8	(58,2)	46,6	**70,3**

Target

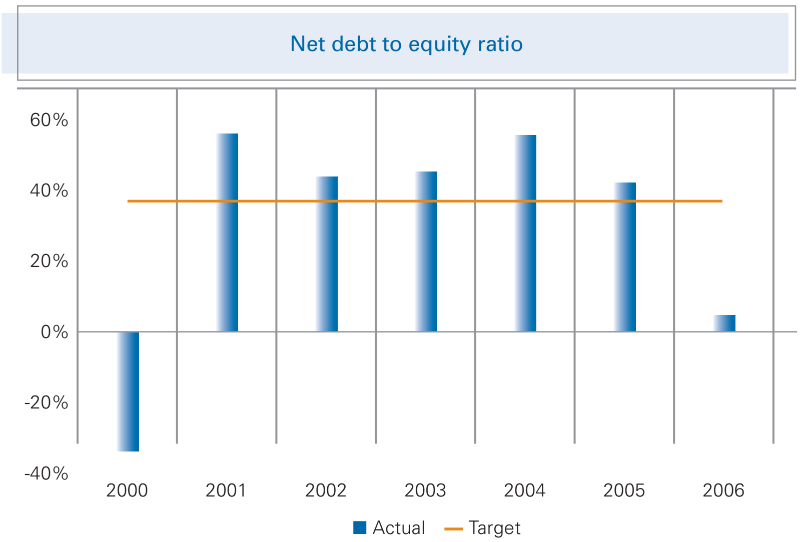
To achieve a long-term average annual growth in diluted headline earnings per share of CPIX +10%



		Average	2000	2001	2002	2003	2004	2005	2006
3. Net debt to equity ratio	Actual	**34,3**	(33,6)	54,6	42,4	43,8	54,0	40,8	**3,8**

Target

To maintain an average net debt to equity ratio of 35% in the longer term



Five year financial review

	2006 Rm	Years ended 30 June Restated 2005 Rm	2004 Rm	2003 Rm	2002 Rm
Consolidated balance sheet					
Property, plant and equipment	**2 083**	1 858	1 891	1 923	1 770
Goodwill and other intangibles	**760**	754	718	959	1 076
Investments	**471**	691	555	526	508
Deferred tax	**276**	169	66	30	22
Inventories and receivables	**4 838**	4 638	3 905	4 244	4 270
Cash and cash equivalents	**1 585**	858	746	674	679
Total assets	**10 013**	8 968	7 881	8 356	8 325
Deferred tax	**62**	28	28	53	89
Payables	**4 707**	4 059	3 256	3 317	3 564
Interest-bearing borrowings	**1 719**	2 023	2 097	1 988	1 868
Total liabilities	**6 488**	6 110	5 381	5 358	5 521
Net assets	**3 525**	2 858	2 500	2 998	2 804
Total ordinary shareholders' funds	**3 521**	2 849	2 495	2 823	2 555
Convertible debentures					
Total ordinary shareholders' funds	**3 521**	2 849	2 495	2 823	2 555
Minority interests	**4**	9	5	175	249
Total shareholders' funds	**3 525**	2 858	2 500	2 998	2 804
Consolidated income statement					
Revenue	**16 054**	13 535	11 740	13 244	13 185
Operating profit before depreciation	**966**	654	620	1 047	1 008
Depreciation	**338**	384	393	375	364
Operating profit before amortisation and non-trading	**628**	270	227	672	644
Amortisation of goodwill			(46)	(60)	(54)
Non-trading items	**(15)**	23	20	192	(5)
Operating profit	**613**	292	201	804	586
Share of profits and losses from associates and joint ventures	**249**	271	184	155	114
Income from investments	**88**	82	66	54	49
Operating income	**950**	644	451	1 013	749
Interest paid	**162**	242	281	316	243
Profit before taxation	**788**	403	170	697	506
Taxation	**(198)**	(55)	19	(101)	(120)
Profit for the period	**589**	348	189	597	386
Attributable to					
Equity holders of Aveng Limited	**588**	346	188	587	363
Minorities	**2**	2	1	10	23
Profit for the period	**589**	348	189	597	386
Headline earnings adjustment	**16**	(23)	27	(126)	58
Headline earnings	**603**	323	215	461	421
Consolidated cash flow statement					
Cash available from operating activities	**1 211**	342	435	302	296
Dividends paid	**(90)**	(54)	(124)	(111)	(79)
Net cash from operating activities	**1 122**	288	311	191	217
Net cash utilised in investing activities	**(205)**	(151)	(299)	(313)	(211)
Net cash from/(used in) financing activities	**(225)**	861	(55)	153	49
Net increase/(decrease) in cash and cash equivalents	**692**	998	(43)	31	54

		Years ended 30 June			
		Restated			
	2006	2005	2004	2003	2002
SHARE PERFORMANCE (cents per share)					
Headline earnings	**154,9**	83,0	55,2	118,5	111,3
Diluted headline earnings	**144,7**	83,0	55,2	118,5	107,4
Earnings	**151,0**	88,9	48,5	153,3	102,0
Diluted earnings	**141,5**	88,9	48,5	153,3	98,4
Cash flow	**398,9**	166,3	207,6	185,7	173,6
Net asset value	**888,7**	719,2	629,8	712,6	645,0
Dividend	**38,0**	23,0	14,0	30,0	27,0
Closing share price	**2 145**	1 235	740	880	800
Returns and productivity					
Borrowings – (decrease) increase in net borrowings (Rm)	**(1 031,0)**	(186,0)	37	125	(6,0)
Borrowings – net debt to equity (%)	**3,8**	40,8	54,0	43,8	42,4
CPIX (%)	**4,3**	3,9	4,8	9,5	7,1
Current ratio (times)	**1,2**	1,2	1,0	1,1	1,0
Dividend cover (times)	**4,0**	3,5	3,9	3,9	3,9
Effective tax rate (%)	**36,7**	41,5	N/a	24,5	26,6
Margin – gross (%)	**14,4**	14,0	14,4	17,0	15,7
– ebit (%)	**3,9**	2,0	1,9	5,1	4,9
– ebitda (%)	**6,0**	4,8	5,3	7,9	7,6
Net interest cover (times)	**11,9**	3,6	2,0	3,2	3,9
Property, plant and equipment – expansion (Rm)	**405,6**	261,8	244,6	403,8	315,6
– replacement (Rm)	**354,9**	206,5	168,5	423,8	387,5
Return on average capital employed (%)	**19,1**	13,1	10,0	18,2	19,2
Return on average equity (%)	**18,9**	12,1	8,1	17,2	18,5
Revenue per employee R000	**655,6**	627,1	600,9	579,0	550,8
Total liabilities as a % of total shareholders' equity (%)	**184,1**	213,8	215,2	178,7	196,9
Total shareholders' funds to total assets (%)	**35,2**	31,9	31,7	35,9	33,7
Number of employees	**24 488**	21 582	19 538	22 875	23 939
Number of shares (million)					
In issue	**396,1**	396,1	396,1	396,1	396,1
Weighted average	**389,2**	389,2	389,2	389,3	378,6
Diluted weighted average	**454,7**	389,2	389,2	389,3	392,3
Stock Exchange performance (cents per share)					
Market value per share					
– at year end	**2 145**	1 235	740	880	800
– highest	**2 517**	1 344	995	1 068	880
– lowest	**1 225**	700	703	740	615
– volume weighted average price	**2 262**	1 080	821	886	779
Earnings yield (%)	**5,2**	5,6	12,4	13,2	11,4
Dividend yield (%)	**1,1**	1,1	4,1	3,1	3,4
Market capitalisation at closing prices (Rm)	**8 497,3**	4 892,4	2 931,5	3 486,1	3 169,2
Price earnings ratio at year end	**19,2**	18,0	8,1	7,6	8,7
Value of shares traded (Rm)	**7 128,5**	3 114,0	2 002,9	1 394,3	1 465,9
Number of shares traded (million)	**315,2**	288,4	244,0	157,4	189,9
Average price per share traded (cents)	**1 897**	1 080	821	886	772
Percentage of market capitalisation traded (%)	**83,9**	63,6	68,3	40,0	46,3
Liquidity (%)	**82,7**	72,8	61,6	39,7	47,9
Weekly rand volume (Rm)	**143**	60	38	27	28
Rand to AUD Dollar					
Closing	**5,30**	5,09	4,33	4,98	5,85
Average	**4,83**	4,67	4,86	5,24	5,26
Rand to US dollar					
Closing	**7,15**	6,68	6,28	7,47	10,37
Average	**6,47**	6,23	6,86	9,00	10,04

Code of business conduct

- The **law** will not be violated when conducting business for or on behalf of the group. Unethical payments, business dealings, or participation in illegal acts, such as bribery or money laundering will not be tolerated.

- Any possible **conflict of interest** in handling group affairs will be avoided and employees will perform their duties conscientiously, honestly and in accordance with the best interests of the group and its shareowners.

- Employees will not derive **personal advantage** from their position in the group, nor will they acquire any business interest which could divert their energy from group responsibilities. They will not participate in any activity that is potentially in conflict with group interests or which could be perceived to impair their independence. Employees will not accept gifts, hospitality, or other favours from suppliers or potential suppliers of goods or services which, in the view of their immediate line superior or colleagues would be unwise, potentially sending the wrong message to subordinates and/or placing the recipient or the group under perceived obligation.

- Group funds, property and assets will be used only for legitimate business purposes. **Strict internal controls** and governance procedures of the highest order will be introduced and enforced to discourage fraud and safeguard the group.

- Accurate and **reliable records** will be kept which fairly reflect all business transactions in terms of statements of International Financial Reporting Standards, for the group to properly manage its affairs and meet its legal, financial, and reporting obligations. Personal and business information gained in the course of business dealings will be safeguarded and its privacy respected.

- The group will uphold its **employment equity** policy which requires that equal opportunity be offered to all employees. The individuality of each person, right to freedom of association and to absolute privacy in this regard will be respected. Harassment of any form, including sexual harassment, will be viewed in a very serious light and appropriate disciplinary action taken.

"Safety is paramount, never to be compromised in the pursuit of any objective."

- Aveng's **people** are unquestionably its most important asset. Safety is paramount, never to be compromised in the pursuit of any objective. Through careful selection, ongoing development, performance-based management and fair reward, every person in our group will be encouraged to realise their full potential. Exceptional commitment to the group's core values of integrity, quality, and entrepreneurship will be appropriately rewarded.

- Aveng will strive to be a leading **corporate citizen**, working with employees, their families, local communities and society at large to improve the overall quality of life and to achieve sustainable economic development at all levels.

- The group will promote policies and operating procedures that conserve resources and minimise the **environmental impact** of its business activities.

- Finally, Aveng, its subsidiaries and officers will seek to build an atmosphere of openness and trust through regular, timeous and courteous **communication** with all stakeholders.

Behavioural values

A company's behavioural values link talk and action. Talk defines policies and commitments. The way in which this talk is translated into action defines the company and its values.

Some years ago Aveng conducted an exercise to identify those behavioural values, expressed through common practice, that had become entrenched in the group's subsidiaries. After extensive discussion, three words emerged that in broadest terms define Aveng's understanding of desirable corporate behaviour – or more colloquially "the way we believe things should be done around here".

The first of these, 'Integrity' came up repeatedly as the value of primary importance to our people. Integrity does of course fundamentally impact on the reputation of the group and therefore on its very existence. Without it we would not have a business because the best people, be they employees, customers, suppliers or shareowners, will not want to be associated with Aveng. Any action by an employee that could potentially undermine the group's integrity is therefore viewed in a very serious light and could result in dismissal. The two remaining values of 'quality' and 'entrepreneurship' emerged as less fundamental, being more aspirational in nature as they drive business decisions, and set the standards for desirable behaviour across the group.

Integrity: "walking the talk"

With integrity increasingly becoming a platitude in business parlance, we have sought to carefully define our own brand of integrity in a very specific 10 point code of business conduct, published on page 14 of this report.

These 10 directives are the group's 'rules of engagement', defining the nature of our relationship with each other and with the outside world. The code defines the boundary conditions within which we deliver value for our customers, provide a challenging work environment for our people and make money for shareowners.

Each year this code is formally committed to by the directors of Aveng and its principal subsidiaries and by members of the management boards of its operating groups and business units. Implicit in this process is a commitment to communicate the contents of the code and its broader implications widely within the group's operating divisions.

Management practitioners will understand that commitment at the top is relatively easy to achieve, while actual day-to-day practice deep down in the organisation is very much more difficult to control. As a relatively decentralised group, with 30 000 people spread across hundreds of sites in dozens of countries, value-driven leadership at all levels is imperative. A clearly

"We understand integrity to mean being honest with ourselves and with others … delivering on undertakings."

defined corporate conscience enables employees to intuitively know what actions are acceptable and which are not. Furthermore, a clear code of business conduct protects employees from possible unscrupulous behaviour by superiors.

Simply stated, we understand integrity to mean being honest with ourselves and with others, caring for the company, respecting our fellow human beings and delivering on undertakings.

Quality: "being the best at what we do"

Quality as a behavioural value is about acting professionally, winning work and then doing the finest job possible. It is about a passion to be the "best at what we do". Since no one can be the best at everything, it requires each business entity to continually seek and develop commercially viable 'best in class' capabilities that have the potential of adding real value for customers and thereby making money for shareowners. Underpinning 'quality' as a value is the need for disciplined, systematic, and compliant behaviour. This includes meeting the onerous requirements of quality, safety and environmental codes of practice, a host of corporate governance standards and specific job related customer requirements.

In addition, quality is about continuous improvement. Without the determination to constantly lift our game, we will not be able to stay at the top.

Entrepreneurship: "making money"

In our language entrepreneurship means "treating this business as if it is my own, being diligent and cost conscious in the way I look after it and being creative in finding ways to grow it further". Succinctly, it's about "getting out there, making profit and collecting the cash" – something drilled into our business entities by their entrepreneurial forebears.

Large businesses have the advantages that come with scale. Highly debilitating however, is the bureaucracy that often accompanies size. Sense of ownership and destiny is lost and a "cog in a big machine" mentality develops.

Aveng continually strives to avoid this trap by structuring relatively small and autonomous business units, and even smaller teams within these units, each with clearly defined authority levels and accountability criteria. Innovative thinking is encouraged and a sense of ownership is promoted through performance-based incentives in the form of annual bonuses and longer term phantom share schemes linked directly to business entity profitability.

Decentralised decision making brings enormous competitive advantage but does need to be underpinned by strong centralised support services, standardised processes, risk management and stringent reporting disciplines.

The entrepreneur's "making money" mindset that we seek to promote is the antithesis of bureaucratically-oriented thinking that attempts to protect 'status' in the organisation. Reward structures need to be de-linked from traditional job grading, giving the flexibility to reward the best people appropriately and utilise their skills optimally.

- Aveng is committed to implementing corporate social responsibility strategies throughout its operations worldwide in line with internationally recognised sustainability guidelines and principles. Aveng recognises that its long-term prosperity and the sustainability of its operations rely on a climate of economic and social prosperity, as well as the integrity of the natural environment.

- Aveng will strive to be a leading corporate citizen, working with employees, their families, local communities and society at large to improve the overall quality of life and to achieve sustainable economic development at all levels. The group recognises the universal right of present and future generations to a natural environment that is not harmful to human wellbeing, and endeavours to minimise the environmental impacts of its operations.

- Aveng acknowledges its accountability to its shareowners and its responsibility to its wider stakeholder base, including employees, clients, business partners, contractors, suppliers, communities affected by its operations, Government and regulatory bodies. Aveng seeks to build an atmosphere of openness and trust through regular, timeous and courteous stakeholder engagement. The group will communicate with stakeholders in a transparent and realistic manner to the extent that this is not detrimental to the group. All stakeholder engagement will be balanced with the group's overall responsibility to the sustainability of its business, employees and investors. The group is committed to closely working with communities in and around its operations.

Economic

- Aveng's capacity to act as a responsible corporate citizen is directly influenced by its financial performance. The group is dedicated to building and maintaining a robust, enduring business for the benefit of all its stakeholders and the economies and societies of the countries in which it operates.

- Aveng will strive to contribute positively to the development of the economies and societies of the countries in which it operates through the creation of wealth. The group will aim to meet its year-on-year financial targets, so as to achieve excellent growth in all aspects of the business and increased wealth for its stakeholders and the communities in which it operates.

"Aveng views its responsibility to help bring about the economic empowerment of historically disadvantaged South Africans as integral to being a good corporate citizen and truly South African group."

- Aveng is committed to keeping accurate and reliable records that fairly reflect all business transactions in terms of the International Financial Reporting Standards, to ensure that the group is able to properly manage its affairs and meet its legal, financial and reporting obligations.

- Aveng views its responsibility to help bring about the economic empowerment of historically disadvantaged South Africans as integral to being a good corporate citizen and truly South African group, as well as a sound business imperative that will enable it to maintain its strong performance over the long term. In South Africa, the Aveng group of companies will proactively strive to meet the targets set by regulations governing broad-based black economic empowerment in the areas of ownership, management, employment, training and upliftment and social investment.

- Aveng's South African procurement policy supports suppliers who in turn support the transformation of the South African economy and society. Businesses within the group actively promote the use of black suppliers for the provision of goods and services, and aims to develop long-term strategic relationships with black empowered business partners. The group will assist its suppliers in their endeavours to comply with the regulations governing broad-based black economic empowerment. In turn, the group will continue to implement transformation initiatives to retain its own status as a black-empowered supplier.

- Aveng is committed to economic empowerment through enterprise development and will actively form partnerships and joint ventures with black businesses to transfer skills and facilitate the development of strong black-owned businesses. In addition, wherever possible the group's procurement policy actively supports the development of local small, medium and micro enterprises, particularly black-owned enterprises.

Environment

- Aveng is committed to the protection of the environment and to the reduction of environmental impacts stemming from its business activities to as low a level as is reasonably practicable. The group will promote policies and operating procedures that conserve resources and minimise the environmental impact of its business activities. The group aims to use energy, water and other natural resources and raw materials effectively, and prevent pollution by controlling its emissions, discharges and wastes, and disposing of or recycling materials in an environmentally friendly manner.

- Aveng will undertake internal and external audits to identify areas of possible environmental risk, and will identify potential significant environmental impacts for each major project, product, service and permanent facility through environmental impact assessments. As most projects undertaken by the group's operations are on a contract basis for clients, accountability for the environmental impact of these operations rests with the client. For projects that have environmental consequences, the group will develop and implement environmental management systems and plans to eliminate or minimise environmental impacts at the request of and on behalf of the contracting client.

- Aveng encourages its operations to obtain ISO 14001 certification and to comply with all relevant environmental legislation, regulations, construction industry codes of practice and other best practice environmental standards.

- Aveng will consult and communicate with employees, contractors and clients on environmental issues to clearly define responsibilities and accountabilities. The group will encourage a culture of environmental awareness and care amongst its employees, contractors and clients through negotiated key performance areas, information, training and supervision to limit the environmental impact of the group and its clients.

- Aveng will undertake appropriate rehabilitation of the environment at the request of the contracting client. Where Aveng acts on its own behalf and these activities have a negative impact, the group sets aside adequate funds and resources for environmental rehabilitation. In all instances of an environmental incident, the group undertakes to take timeous steps to limit the damage caused, clean up and rehabilitate the environment.

- Aveng will strive to continually identify ways to improve on its environmental performance through an ongoing programme of review and corrective action and undertakes to provide the necessary resources and management support to achieve this goal.

- Aveng supports green procurement and encourages its operations to give preference to contractors and suppliers that adopt environmentally responsible practices.

Social

- Although the legal protection of human rights varies in the countries in which the group operates, recognition of human rights is entrenched throughout Aveng's operations worldwide to prevent any form of discrimination based on religious or other beliefs, nationality, gender, age, race, marital status or physical features. Each person's individuality, right to freedom of association and

"Aveng recognises that ongoing investment in talent development, skills, training and employee upliftment is crucial to address the shortage of skills in the industry."

absolute privacy are respected. Harassment of any form, including sexual harassment, is viewed in a very serious light and appropriate disciplinary action is taken. The group also prohibits the use of child, compulsory or forced labour in any of its operations. The group expects its supply chain and contracting parties to observe and promote human rights principles.

- Aveng respects the right to privacy and abides by the regulations of the countries in which it operates in this regard. Personal and business information gained in the course of business dealings is safeguarded and kept private.

- Aveng is committed to providing a working environment that attracts and retains talented employees by respecting the rights of its employees, offering competitive conditions of employment and providing a safe place to work. Conditions of employment are closely monitored to ensure that they are in line with the legislative requirements of the countries in which the group operates worldwide. Through careful selection, ongoing development, performance-based management and fair reward, every person in the group is encouraged to realise their full potential. Exceptional commitment to the group's core values of integrity, quality, and entrepreneurship are appropriately rewarded.

- Aveng's employment equity policy requires that equal opportunities be offered to all employees. The group seeks to create an environment in which individuals who demonstrate commitment and ability are able to develop their careers free from any form of discrimination. In South Africa, the group is committed to broad-based black economic empowerment and aspires to build a workforce that reflects the demographics of South African society.

- Aveng recognises each employee's right to a safe and healthy working environment and strives for zero risk to employees, contractors, suppliers and clients. Health and safety are paramount and never compromised in the pursuit of any other objective. Wherever it operates in the world, Aveng applies the same high standards of health and safety it employs in South Africa and Australia. The group complies with all relevant legislation, regulations, codes of practice and construction industry standards in the countries in which it operates. The group aims to constantly improve its health and safety performance.

- Aveng will use its purchasing power with contractors and suppliers to impose strict safety, health, quality and environmental performance criteria, and to ensure that they uphold values such as ethics, employment equity, the training and wellbeing of employees and human rights, including the avoidance of child and forced labour.

- Aveng recognises the right of all its employees to freedom of association, and supports the rights of its employees to join a trade union and to be represented by it for collective bargaining purposes. Each group operation has policies in place to deal with freedom of association and collective bargaining, as well as other procedures such as grievances, retrenchment and disciplinary action that may be required to effectively manage its workforce. These policies comply with the legislative requirements of the countries of operation worldwide.

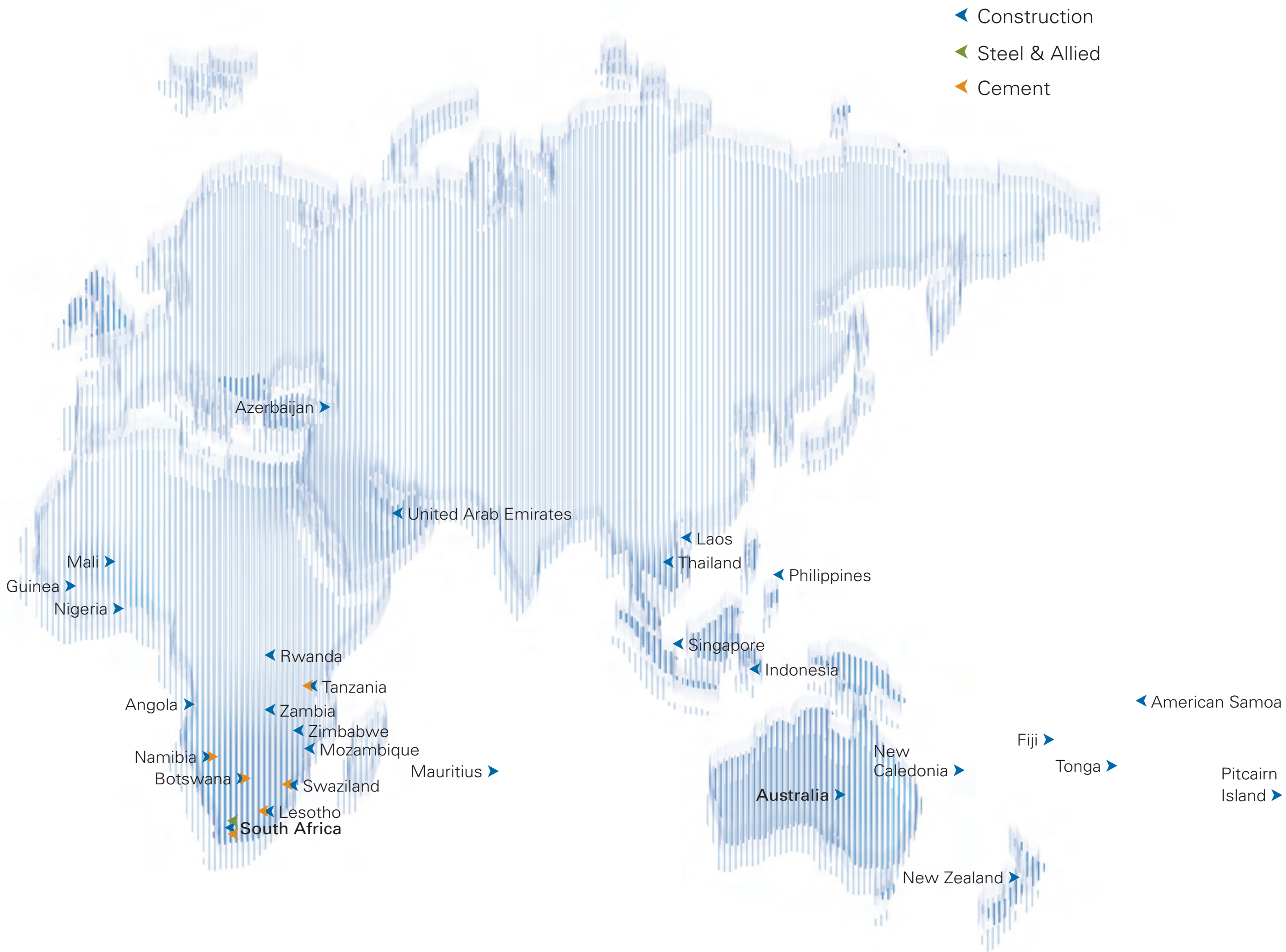
- Aveng recognises that ongoing investment in talent development, skills, training and employee upliftment is crucial to address the shortage of skills in the industry that are vital to the growth of the group and the country. The group views its investment in its own human capital as a strategic initiative that will give it competitive advantages and ensure the long-term sustainability of its business. In the group's operations worldwide, employees are given the opportunity to participate in skills development and training programmes, mentorships, career planning and regular performance appraisals to ensure their own growth.

- Aveng is aware that the long-term prosperity of the group relies on a climate of economic and social prosperity, which is linked to the sustainable development of society. The group is committed to social upliftment and aims to contribute meaningfully to nation-building through a corporate social investment programme that has partnering and enablement as its core philosophies. Each year Aveng contributes 1% of the group's prior year's headline earnings to deserving community investment projects through the Aveng Community Investment Trust. In addition, many of the group's operations are involved in other charitable projects, infrastructure development and many other initiatives to uplift the communities in which they operate. This involves financial contributions as well as the donation of goods and services and the transfer of skills.

Ethics

Each year Aveng's code of business conduct, which can be found on page 14 of this report, is committed to by the directors of Aveng and its principal subsidiaries and by members of the management boards of its operating groups and business units.

Geographical spread



Aveng regards its responsibility to help bring about the empowerment of previously disadvantaged South Africans as integral to being a model corporate citizen and a truly South African company. The group endorses government led initiatives in this arena and wholeheartedly supports the development of the construction sector charter. Aveng will continue to proactively engage in the ongoing process to formalise the charter as a code of practice and will vigorously support the implementation of the charter in the sector.

The objectives of the construction sector charter reflected below are closely aligned to those of the Aveng group. The charter objectives are:

- The transformation and growth of the sector;
- The improvement in the competitiveness and efficiency of the sector;
- The aim to achieve a substantial change in the racial and gender composition of the ownership, control and management within the sector;
- To address the critical skills shortage and skills development with a specific focus on women;
- To enhance entrepreneurial development and sustainable development of Black Economic Empowered (BEE) Small, Medium and Micro Enterprise (SMME) construction companies through strategic partnerships;
- To bring an end to the malpractice of fronting in the industry.

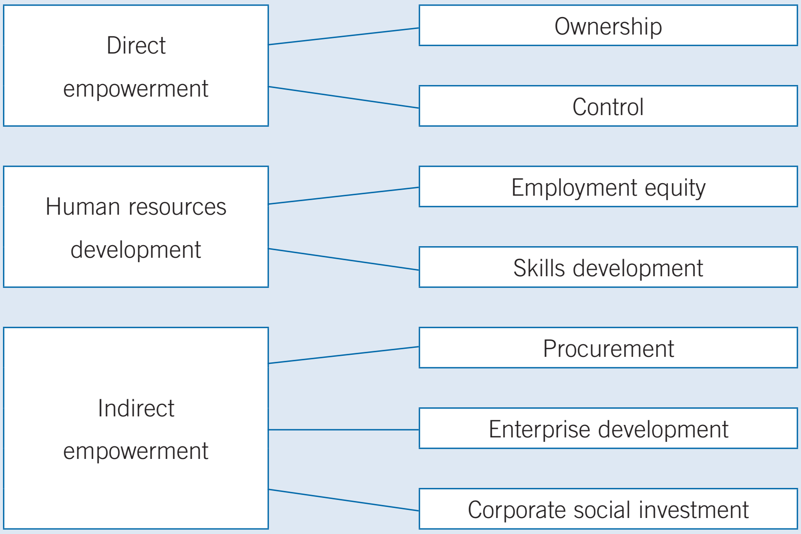
  Objectives are aimed at promoting a vibrant, competitive and sustainable construction sector in South Africa.

The construction sector charter was signed by all industry stakeholders and the Minister of Public Works, the late Ms Stella Sigcau on 17 March 2006.

The charter applies to all stakeholders in the creation, expansion and/or maintenance of fixed assets related to residential or non-residential buildings, infrastructure or other form of construction works in South Africa.

The charter consists of the charter document and scorecard. The scorecard consists of three focal areas broken down into seven elements. These comprise the seven pillars of Broad Based Economic Empowerment as shown on the next page.

"Aveng will continue to proactively engage in the ongoing process to formalise the charter as a code of practice and will vigorously support the implementation of the charter in the sector."



In the scorecard each of these seven elements is subdivided into sub-elements, each with its own weighting. Targets have been agreed for each sub-element. These targets are seven year targets and where appropriate interim four year targets have been agreed.

Aveng has historically been proactive in its approach to broad based empowerment and accordingly finds the South African operations of Grinaker-LTA and Trident Steel well placed with regard to their Broad Based Black Economic Empowerment (BBBEE) credentials.

If one considers the various elements of the scorecard, commencing with ownership, the BEE deal finalised on 11 February 2005, whilst falling slightly short in some areas with respect to the charter targets, is well aligned to the charter imperatives. It is a broad based arrangement which more than adequately addresses both the economic interest and voting rights requirements of the charter.

The control section of the scorecard focuses on the composition of the board and executive management both from a black people and black women perspective. The employment equity section focuses on senior, middle and junior management from the same perspective. Whilst significant progress has been made in these areas, the level of black people and especially black women at all levels in the organisation is below the four and seven year targets set by the charter. This will continue to receive the requisite focus and attention.

The skills development section of the scorecard focuses on the total training spend, skills and management training for black people and black women, total learnerships, learnerships for black people, black women, and designated groups, bursaries for black people and mentorship. Skills development in the group has been a strong suit of the operations historically and is generally well aligned to the needs of the sector as defined in the scorecard. Skills development is the key to future sustainability and accordingly will receive a greater focus in the periods ahead.

The procurement section of the scorecard measures the discretionary spend of the Grinaker-LTA and Trident operations in South Africa. This section of the scorecard is designed to drive BBBEE development in other sectors. Currently the group gives preference to BBBEE enterprises in accordance with the requirements of the Preferential Procurement Policy Framework Act No. 5 of 2000 (PPPFA) regulations. To assist suppliers to evaluate their BBBEE credentials and facilitate their understanding of interventions required to improve and develop their BBBEE status, the group has developed an online evaluation process. In turn this facilitates procurement preferencing and evaluation. In giving preference, Aveng will not compromise on standards or service. The current BBBEE procurement spend falls short of the charter seven year target. This is anticipated to improve rapidly as the online process gains momentum and as suppliers to the group embrace BBBEE.

The enterprise development section of the scorecard focuses on the promotion of sustainable development through a co-ordinated development of black enterprises which is not limited to SMMEs. Aveng believes that it can continue to add significant value in this arena as it has successfully done in the past. This will include the appropriate mentorship, training and skills transfer to the enterprises to be developed. The focus will be on quality and not quantity of enterprise development to ensure that the new enterprises are sustainable and develop into significant businesses over time.

Corporate Social Investment (CSI) in the scorecard can be both sector specific or general. The group undertakes significant CSI initiatives as detailed on page 154 of the sustainability report. It is anticipated that when all the initiatives are collated and measured that the group will probably meet the seven year charter target.

In order to verify the BBBEE status of the Grinaker-LTA and Trident Steel companies, Aveng has undertaken a detailed review of verification agencies (no agencies are currently accredited by the Department of Trade and Industry (dti) and has selected a preferred partner to undertake the initial evaluations. This process commenced in August 2006. Interim evaluations are also being conducted internally to enable Aveng to review progress made to

"The focus will be on quality and not quantity of enterprise development to ensure that the new enterprises are sustainable and develop into significant businesses over time."

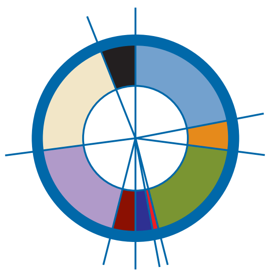
date and set appropriate targets. This will then be augmented by the work undertaken by the verification agency. Once verification agencies have been accredited by the dti and the South African National Accreditation System (SANAS) they will be in a position to issue a BEE compliance certificate valid for twelve months.

In order for the construction sector charter to become a code and be legally binding in terms of section 9 of the BBBEE Act No. 53 of 2003 on all organs of state (including central government, provincial government, municipalities, public entities, public business enterprises and Public Finance Management Act Schedule II and III companies) and at private sector clients operating within the built environment. The following process has to be concluded by the Charter Grouping Integrated Management Committee and various government departments:

- Submit application for section 12 of the BBBEE Act No. 53 of 2003 approval of charter to the Department of Public Works (DPW). This was completed in July 2006.
- A section 12 approval implies that the construction sector charter is binding on all stakeholders in the construction sector as defined in the construction sector charter.
- dti to approve construction sector charter in terms of section 12 of the Act.
- Develop and distribute circular to ensure construction sector charter is used as soon as practically possible in BBBEE tender requirements.
- Undertake a third party review of construction sector charter.
- Develop charter council constitution.
- Submit application for section 9 of the BBBEE Act No. 53 of 2003 approval of the construction sector charter to the dti.
- A section 9 approval, as noted above implies that the construction sector charter becomes a code and is legally binding on the sector and all organs of state.
- Approval and gazetting by dti of the code.

Construction

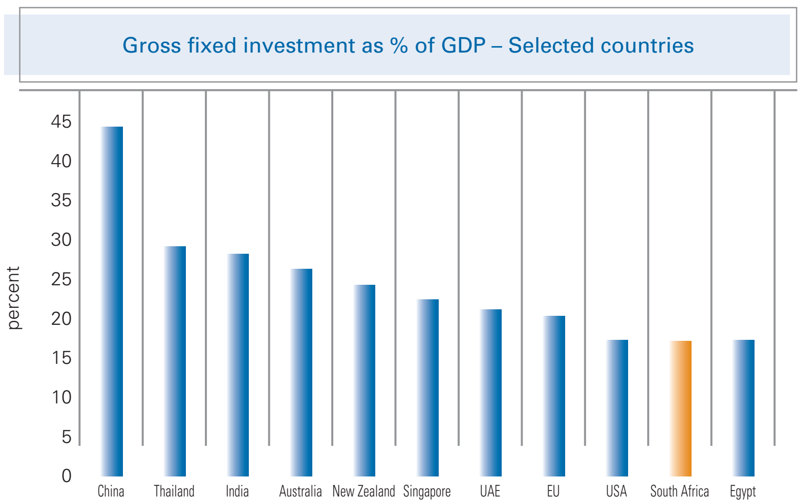
Globally, the construction industry continues to experience robust growth, with the realisation that good infrastructure is an important imperative for economic growth. The global construction market is currently estimated at US$4,5 trillion with recent growth of 5% per year. On average, the world invests 23% of its GDP in fixed assets and infrastructure. Economists argue that, for economic and per capita income growth to be sustainable, a country needs to maintain annual spending on fixed assets and infrastructure of at least 20% of its GDP. In Australasia and the Middle East this level has been exceeded for some time, indicating healthy construction markets. In comparison, South Africa has not achieved this level over the last two decades. The government's stated intent is that the level should increase from the current 17% of GDP to 25% by 2014. This confirms that the construction industry locally is also likely to see robust growth into the foreseeable future.



World construction market
(USD 4,5 trillion)

- China 22%
- SE Asia 5%
- Japan/other Asia 19%
- Oceania 1%
- Africa 3%
- CIS 4%
- North America 19%
- Europe 21%
- Latin America 6%

The Aveng construction footprint covers around 5% to 10% of the world, with a focus on regions where considerable investment in non-residential and engineering construction is taking place. This market review considers the features of and conditions in international contracting in its chosen operating regions, and in local contracting in South Africa.



Source: World Fact Book

"Opportunities in the Australian domestic market are significant."

Construction in Australia, SE Asia and the Middle East

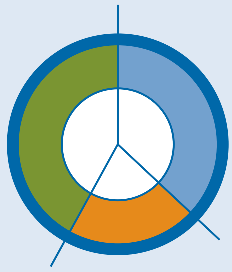
Surveys conducted by the Australian Constructors Association forecast the next two years to be the strongest on record for Australia's non-residential building construction industry, on the back of a buoyant resources sector, strong infrastructure investment and sustained economic growth. There is also an upsurge in transport infrastructure developments in ports, roads and rail, as well as the utilities sector of both water and power that continue to climb steadily.

In New Zealand, the construction market is about US$10 billion (ZAR70 billion) in size. Burgeoning growth in the utilities sector of both water and power, and transportation infrastructure is currently being experienced. Opportunities will be plentiful over the short to medium term, with large capital expenditure plans by the public sector.

South Korea, Indonesia, Thailand and Malaysia remain the dominant construction markets in SE Asia. The total SE Asia construction market is worth about US$225 billion (ZAR1 600 billion) annually with countries such as South Korea spending almost 30% of GDP on infrastructure. Asian operation work volumes in the Aveng group chosen trading locations are good. High infrastructure construction activity in the heavy industrial hubs of Thailand and Singapore in marine, pipeline and plant construction is ongoing. Indonesia also continues to expand its coal export to feed global demand which in turn provides good infrastructure opportunities.

The Middle East continues to offer opportunities in the oil and gas and the smelting sector and there are new mechanical, pipeline and fabrication works projects with reputable customers.

A key feature of the construction markets in Australia, Asia and the Middle East is that the sector contributes a relatively higher proportion to the regional economies than most other regions of the world. In Australia the total construction market is about AUD90 billion



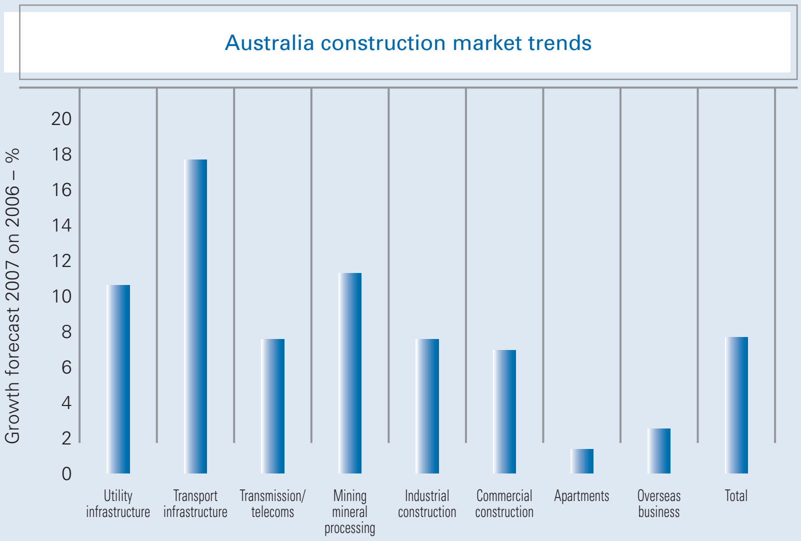
Total construction market in Australia
(Value: AUD90 billion – 2005)

- Residential building 37%
- Non-residential 21%
- Engineering and construction 42%

Source: ABS

(ZAR480 billion) in size and about 6% of national GDP. This is roughly five times the size of the South African construction sector.

Opportunities in the Australian domestic market are significant, with the result that overseas business of the larger engineering and construction firms accounts for approximately 10% of total construction revenue. The engineering and construction sector (infrastructure, heavy industry and mining) offers immense growth prospects. In contrast, both



residential and non-residential building growth is expected to be modest. Similar to the South African market, availability of technical skills and labour and rising input costs remain the most important supply constraints. The sourcing of building materials, a problem in recent years, is said to be easing due to a weaker demand from the building sector.

Whilst the market has large volumes of construction activity, it continues to remain competitive. McConnell Dowell is well positioned in these regional markets in terms of its product offering. Some of the key challenges are to secure healthy levels of repeat business by early contractor involvement with clients and doing work in alliances with other contractors, all areas in which the company has been very successful of late.

Construction in South Africa

As a result of the recent sustained period of economic growth, fiscal and monetary stability and improved international profile, together with the concomitant downstream benefits in respect of spending, tourism, home building and the like, it has become evident that the country's ageing infrastructure cannot cope. Congested roads and harbours, inadequate telecommunication capability, power outages, sewer water spills are everyday occurrences.

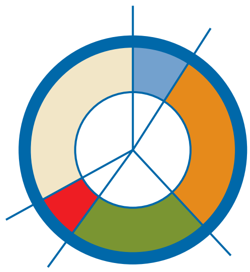
The recently announced infrastructure development programme of government and major public corporations is both opportune and critically needed to ensure that economic growth targets above 4% and possibly up to 6% per year can be achieved. The programme involves spending by all tiers of government (50% by provinces and municipalities) and high profile corporations such as Eskom, Transnet and ACSA. Given that a similar investment effort is expected from the private sector, the country is poised to enter into a healthy construction cycle.

Public sector investment, in addition to high-profile projects such as Gautrain and WC2010 soccer stadiums span all major infrastructure sectors, with road, rail, harbour and electricity infrastructure

"McConnell Dowell is well positioned in these regional markets in terms of its product offering."

being prominent. At this stage capital formation data suggests that implementation and rollout amongst public corporations has picked up, but that government capital spending is still lagging. Also, civil engineering industry data suggests that significantly higher annual turnovers will only be realised in the years following 2006.

The South African construction market is estimated at ZAR100 billion. In the event that investment targets are achieved, this sector could double in size over the next decade. This is a significant challenge, and the construction industry has committed itself to provide assistance in alleviating capacity and skills constraints in every way possible. The industry welcomes the intentions of government to enter into bigger projects using innovative project management techniques as a method to alleviate, in part, the short term constraints on human resources and planning, and ensure delivery of much needed infrastructure.



2006 – 2009
Government capital expenditure and infrastructure maintenance
(Total of ZAR372 billion)

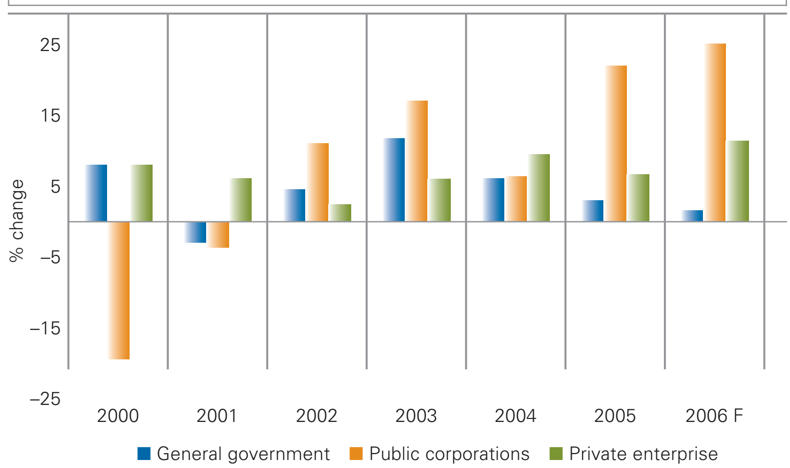
- National
  ZAR31,9 billion 9%
- Provincial
  ZAR108,9 billion 29%
- Municipalities
  ZAR81,8 billion 22%
- Other public institutions
  ZAR26,0 billion 7%
- Public enterprises
  ZAR123,4 billion 33%

Source: Budget Review 2006

2006 – 2009 Government capital expenditure breakdown

Sector	ZAR billion	%
Water	19,3	7
Electricity	58,0	22
Housing	32,4	12
Health	22,3	8
Roads	63,2	24
Rail	17,8	7
Ports	14,7	5
Buildings	16,8	6
Airports	5,2	2
Stadiums	3,0	1
Gautrain	14,2	5
Pipelines	1,6	1
72% of ZAR372 billion		**100**

GFCF growth per sector



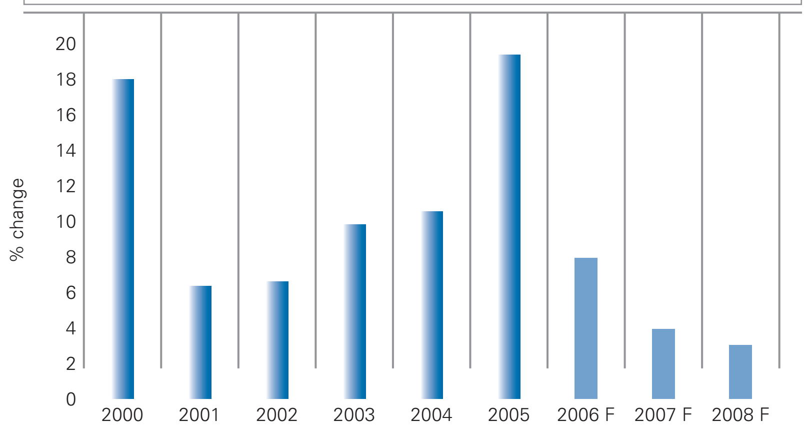
Source: SARB

There are many positive stimuli for the broader construction sector, and business confidence indicators show that South Africa is in an upward cycle. It is likely that this will continue to attract the attention of international firms, including Chinese contractors.

The residential building sector has achieved phenomenal growth since 2000. Generally most analysts now agree that a cooling off period can be expected. Rising interest rates and increasing household debt levels are likely to be the main inhibitors to growth in this sector.

Non-residential building comprises the development of retail, office, institutional/commercial and industrial complexes and buildings. Generally retail and office accommodation developments follow large-scale residential developments and it is expected that the coming period will be no different with growth levels of 6% – 7% for the next three years. Higher prices and lower vacancy rates already point to an increase in demand. Many previously unserviced areas will be targeted for development. Longer-term real growth in this segment is estimated to be between 2% – 3% per annum.

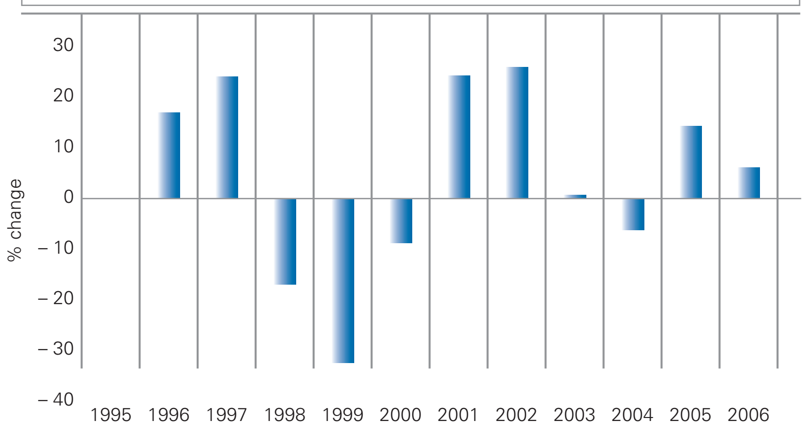
Residential buildings investment



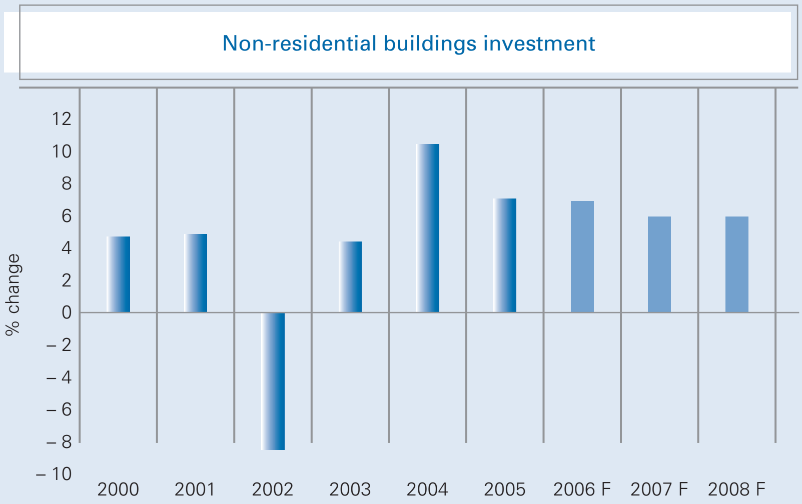
It is anticipated that recent levels of high economic growth must in time result in expansion of industrial space and growth in spending by government and public corporations. Government's hospital revitalisation programme and ACSA's development of major airports are but two prominent examples.

Construction covers a large variety of work types and includes roads and bridges, harbour piers, railway lines,

Change in annual turnover in the civil engineering industry



“The anticipated upturn in workflow will ensure that both growth and transformation occur in a more effective and sustainable manner.”

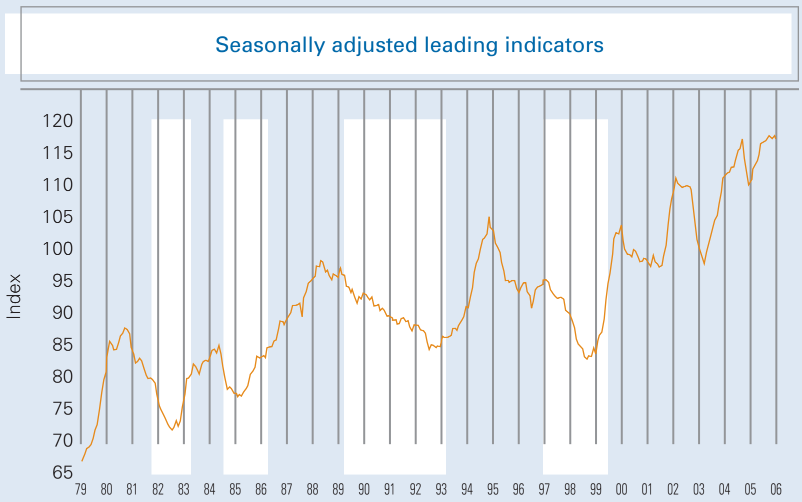


Source: SARB, Aveng

water, sanitation, telecoms and power infrastructure. Government’s infrastructure spending of ZAR372 billion over the following three year period to 2009 will have a significant impact on this sector.

The recently negotiated and signed Construction Industry Transformation Charter comes at an opportune time as the anticipated upturn in workflow will ensure that both growth and transformation occur in a more effective and sustainable manner. In this regard adequate planning cycles and skills are critical, and here the provinces and local government have an important role to play, given their large component of the budget expenditure.

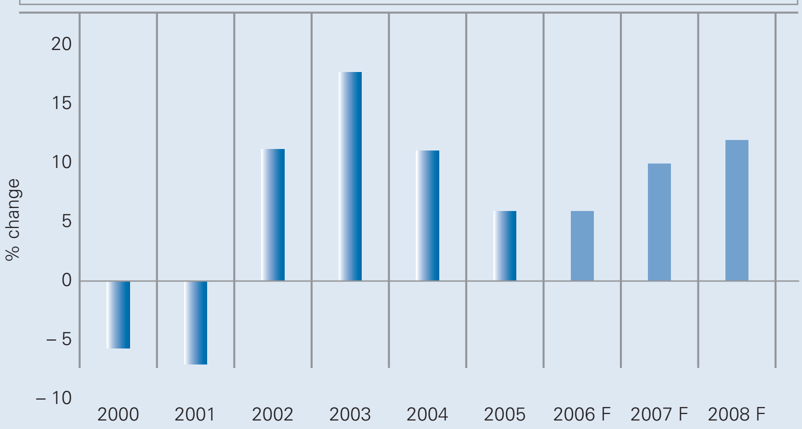
Following relatively subdued increases in building material prices during the preceding period of industry stagnation, the recent price increases above CPIX or overall PPI are regarded as an inevitable correction. It has allowed suppliers to earn reasonable returns on risk and capital employed. Examples of high material price increases are evident in bricks, cement and structural steel products. With the exception of bricks in selected areas, availability of most building materials have not experienced a significant shortage to date. Other factors that frequently constrain developments include transport congestion, overly comprehensive environmental impact assessment processes, availability of serviced land and lack



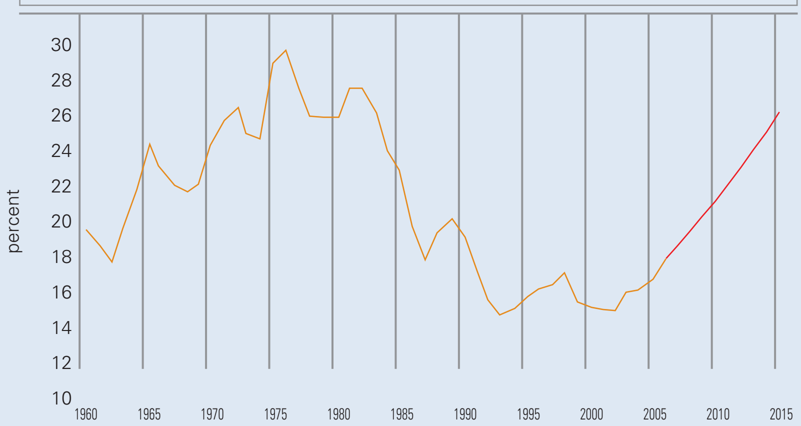
Source: SARB

White areas: downward phases of business cycle

Construction works investment



GFCF as % of GDP



Source: World Fact Book

of artisans and other skilled labour. The construction industry has proved to be adept in dealing with capacity constraints in the past and will do so again.

The industry can look forward to real growth in excess of 8% in both 2007 and 2008. The impetus for growing the industry at this rate is largely in Government's hands. This growth rate has to be maintained for seven years to realise the goal of increasing the total capital formation to GDP ratio to 25% by 2014.

Large South African groups are not only contractors in the traditional sense, but increasingly extend their activities across the value chain to provide project development, building material supply and mechanical, electrical and mining contracting services to their clients. Building and construction statistics are therefore not the only measure of industry performance.

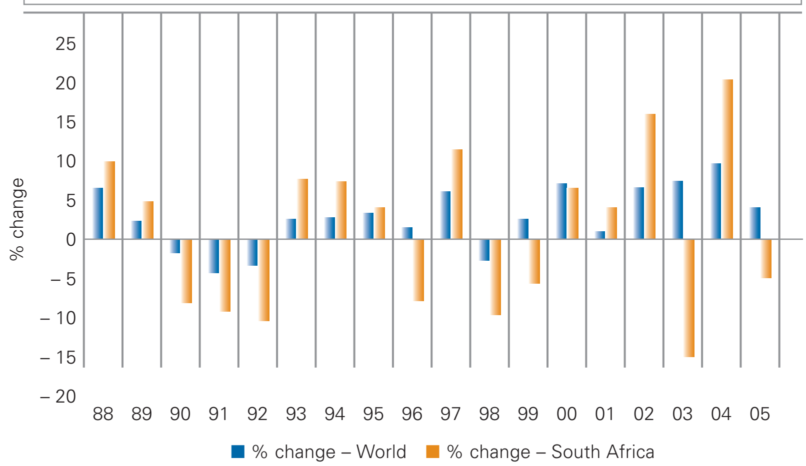
“The construction industry can look forward to real growth in excess of 8% in both 2007 and 2008.”

Steel

Global carbon steel consumption reached a milestone of over one billion tons in 2005, driven by extraordinary growth primarily in China. South Africa accounts for about 0,5% of global steel consumption. Both globally and locally the steel market is subject to business cycles linked to economic growth patterns and steel price trends.

In recent years these annual fluctuations in the local market have been particularly pronounced, due to currency movements affecting exports and high steel price variations with the resultant impact on normal sales and stockholding patterns. In contrast to the global market, where per capita consumption over the last decade has increased on an annual basis, the South African per capita consumption of steel has remained static over the same period. Whilst per capita steel consumption in South Africa is roughly half the world per capita consumption (90 kg vs 170 kg), South Africa compares well with countries such as Brazil (100 kg), Egypt (75 kg) and India (30 kg).

International steel cycle

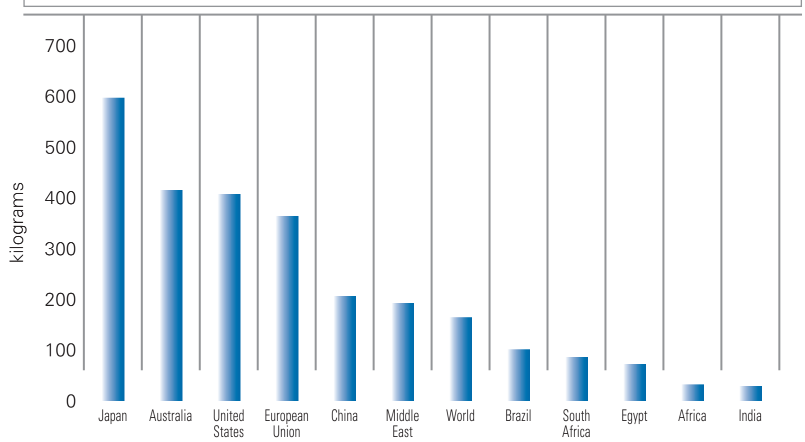


Source: IISI

Consumption of primary carbon steel products has been fluctuating at levels of between 4 to 4,5 million tons annually.

Small in world terms, the South African steel industry is interesting in that both its largest (and probably soon also its second largest) steel manufacturer and its only stainless steel producer are both controlled by international groups, thus making it very much part of the global steel market. It is conceivable that

Steel consumption per capita (2005)

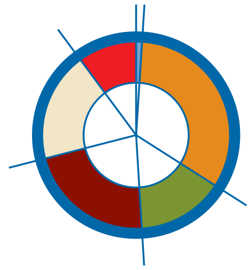


Source: IISI

international competition might increase in other parts of the industry. The local industry was established in the early 1900s, receiving a major boost in the early 1930s by the formation of Iscor. Today the local industry comprises of two primary integrated carbon steel producers, one stainless steel producer and a number of primary steel scrap converters. Local producers satisfy most of South Africa's carbon and stainless steel demand, with only around 7% and 20% respectively being met by imports. Trends in the major industrial end-use sectors are elaborated on below. No distinct growth pattern in sector steel consumption is noticeable.

Building and construction

Steel used in the building, construction and mining sectors accounts for about 25% of local consumption. It is comprised primarily of prefabricated profiles and sections used in industrial building systems and civil structures and concrete reinforcing bar. In recent years the mining and construction markets have been relatively subdued, and profiled steel consumption in the housing market has been minimal. Over the next five years growth in civil construction will be the main driving force in this market segment. The reinforcing bar market is strongly linked to cement and volume growth in excess of 15% annually has been achieved as a result of the expanding market. Growth in profiles and sections is anticipated, given the expected expansion of retail and industrial space, where erection time and functionality often favours steel over concrete and masonry products.



SA packaging market by category (2004/2005)

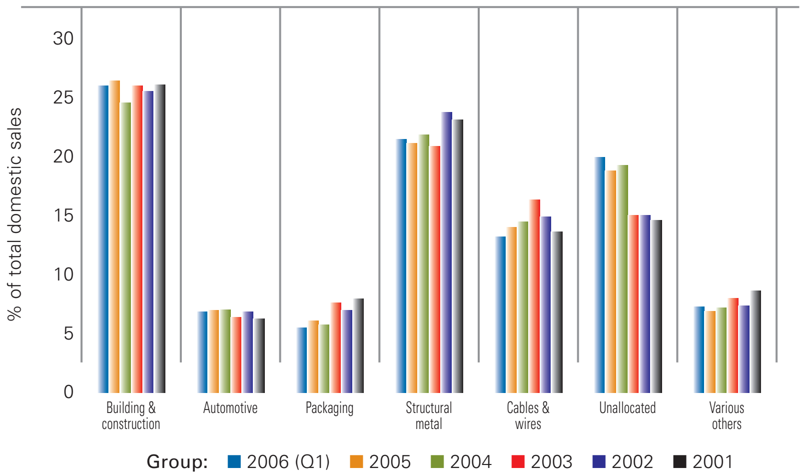
- Other 1%
- Paper and board 33%
- Rigid plastic 15%
- Flexible plastic 22%
- Metal 19%
- Glass 10%

Source: Consol

Structural metal

This category includes mostly flat products used in the manufacturing of pipes and tubes, roofing and various sheet metal applications such as tanks, drums, gas cylinders, pressure vessels, shipping containers and advertising boards. It

Sales to industrial groups



Source: SAISI

"Increased manufacturing sector demand is likely on the back of increased exports.

accounts for about 22% of local demand. This is largely a function of general manufacturing activity, industrial building and the supply of potable water. It is generally expected that increased manufacturing sector demand is likely on the back of increased exports, following a recent period of stagnation.

Packaging

The South African packaging industry turnover is worth approximately R28 billion a year, with an estimated R1 billion a year exported directly by the industry, and hundreds of millions being exported indirectly by food and other producers. Steel in packaging applications (mainly tin cans) has gradually lost market share to other materials. It is estimated that all metal only applications comprise 20% of the total packaging market, which includes plastic, glass, paper and board. Current demands made by constant innovation in packaging designs, particularly in the retail market, render other materials more suitable.

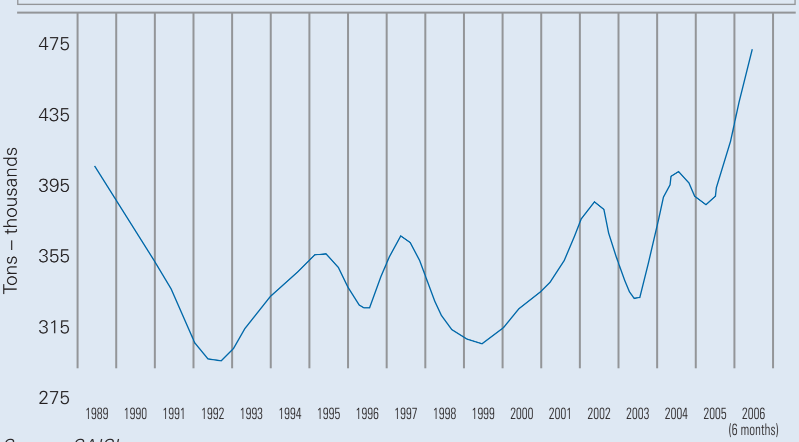
Total domestic vehicle production and sales

Source: NAAPASA

Automotive

It is anticipated that total vehicle sales in South Africa could reach nearly 850 000 units in 2006, which is more than double the sales volume achieved in 2000. Vehicle sales of a million units per annum have been mentioned as a realistic target in the near future. In contrast, local vehicle production has not seen similar growth, as its share of total sales has declined over the last decade. Steel market sales into this segment have also not shown significant growth, due to technological innovation (thinner steel plate), material substitution and higher levels of high quality plate imports. Local production of vehicles is expected to increase over the next few years as the local development plans of vehicle manufacturers are implemented. Significant capital investment plans by virtually all the OEMs to accommodate export programmes for new generation models with commensurate investments in the component sector are anticipated over the next few years. As a result vehicle exports are projected to double over the medium to long term with automotive component exports expanding significantly over the same period, thereby placing additional supply demands on the local steel industry.

SA domestic consumption of carbon steel (monthly)



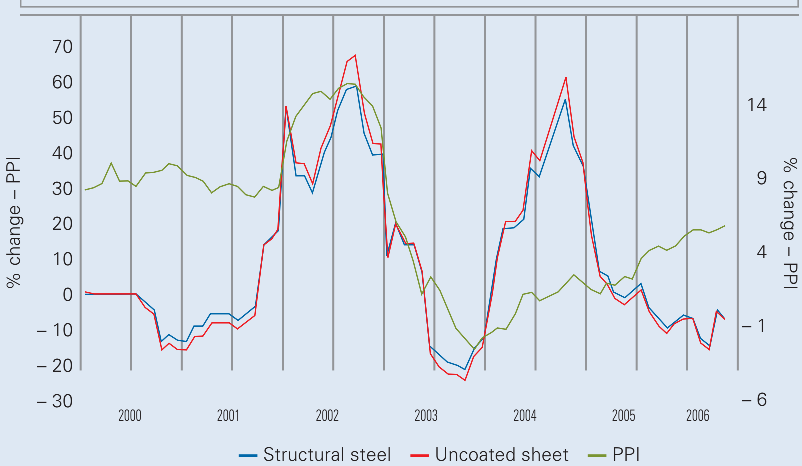
Source: SAISI

Other steel products

Primary products in this sector include cable and wire used in civil structures, gabions, lifts and fencing as well as steel plate used for the manufacture of white goods. These steel products are converted by hundreds of service centres and light fabricators for many diverse applications.

The distribution channels for carbon and stainless steel include both direct sales from primary producer to steel product manufacturers and sales to merchants. Merchants in turn distribute to mini-merchants, final converters and end users of the products. Historically, the merchanting segment (with Trident Steel prominent) has accounted for approximately 42% – 45% of all

SA PPI and PPI for steel production – % change



Source: Stats SA

local sales. Currently there is an increasing trend towards additional processing by steel merchants. These value-add activities include tube manufacturing, slitting, heat treatment and component manufacturing on behalf of downstream processors. Another important role of SA steel merchants is holding stock at levels that are typically much higher than international benchmarks.

The local steel market is characterised by high volume and price volatility. Year-on-year growth is currently similar to the levels

“Per capita consumption of cement is rising and could soon be close to the world average.”

achieved at the peak of the 2000 and 2002 cycles. Further building and construction demand, as well as automotive export growth is expected, but general consumer demand is expected to moderate as higher indebtedness dilutes spending power.

The recent Department of Trade and Industry led formulation of a sector development strategy for the metals sector is welcomed. It seeks to increase local competitiveness, exports and downstream investment in the sector. The successful implementation of this strategy could indeed lead to further real growth in local steel sales and exports.

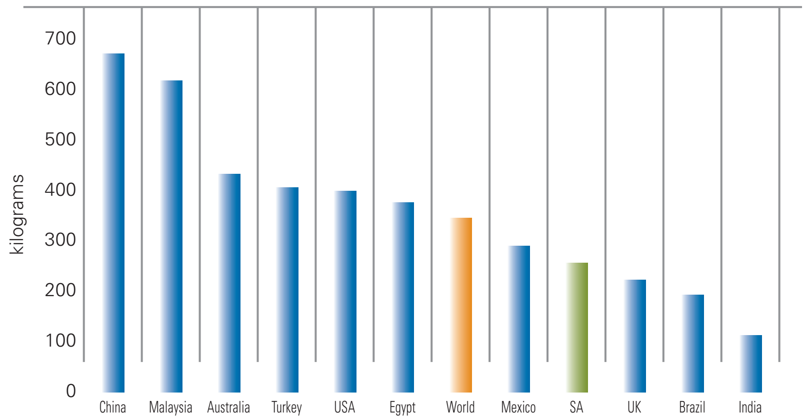
Cement

In 2005, world cement consumption increased by 6% to 2,3 billion tons. There is a direct link between cement consumption and global macro-economic growth. This is clearly reflected in the contraction in worldwide consumption during periods of crisis and conversely the recent healthy growth in the world economy has resulted in a rapid growth in consumption. Asia accounts for eighty percent of the current expansion in consumption, Europe 7% and Africa and the Middle East 7%.

Worldwide regional and local cement consumption closely mirrors cement production, indicating generally a relatively low level of international trade in cement. This is primarily as a result of cement’s low unit value, the widespread availability of raw materials worldwide and the link between economic growth and cement consumption. South Africa is no different. Although the South African market is small in world terms (approximately 0,5% of world consumption, similar to the steel market), per capita consumption of cement is rising and could soon be close to the world average of around 340 kg of cement per capita.

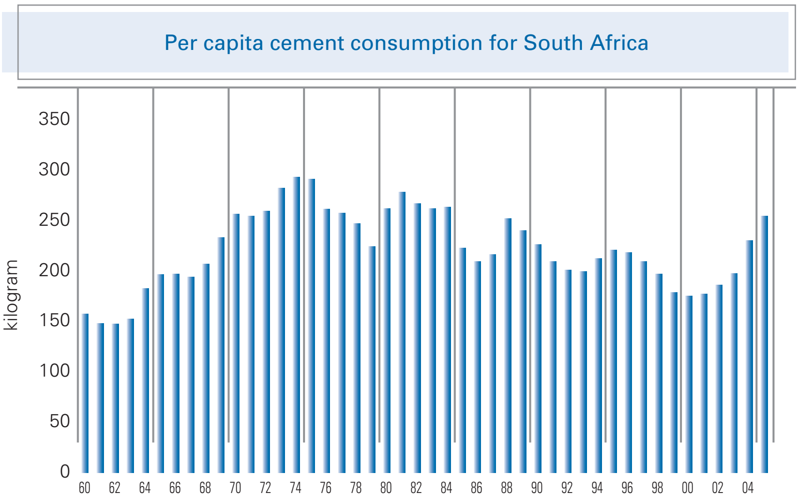
Today, South Africa’s four cement companies together operate 11 cement factories that have been able to meet the local cement demand for the last 50 years. Only one manufacturer is locally

Cement consumption per capita – 2005 (Selected countries)



Source: Global Cement Review: 6th Edition controlled, with the other three being majority-owned by one of the world's top 10 cement groups.

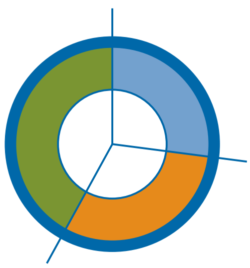
Cementitious consumption growth has been on average higher than the overall economic growth over the past five decades. During periods of high building and construction activity, growth has been good, and in other periods where fixed investment has stagnated, growth was lower than the overall economic growth rate. This is primarily as a result of the impact of the individual components in the overall capital formation on cement consumption.



Different sectors of the building and construction sector have different levels of cement consumption and hence have greatly differing levels of "cement-intensiveness". Residential building is the most cement-intensive sector, with cement being consumed in concrete foundations, slabs and floors, mortar, plaster and screeds and in concrete products, such as bricks, roof tiles and lintels.

By comparison non-residential building sector is less cement-intensive with cement being consumed primarily in the concrete sub-structure with many structural and other building materials being found in the superstructure.

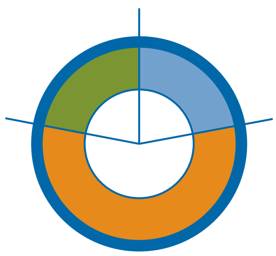
Lastly, the construction sector is the least cement-intensive sector. This sector not only includes civil concrete structures, but also roads, pipelines,



Building and construction capital formation (2005)

- Non-residential building 27%
- Residential building 31%
- Construction works 42%

Source: SARB



Cementitious consumption by end-use sector (2005)

- Civil construction 22%
- Residential building 56%
- Non-residential building 22%

Source: LHA Estimates

"Cementitious consumption growth has been on average higher than the overall economic growth over the past five decades."

bulk earthworks, services and the like, all of which display vastly different levels of cement consumption relative to total project value.

Residential building

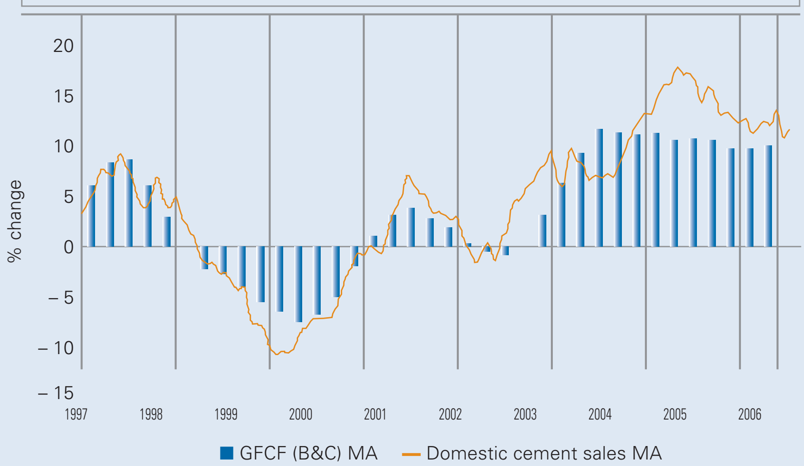
Fiscal and monetary factors have contributed to a phenomenal expansion of the housing stock and an almost unprecedented level of refurbishment and upgrading of existing stock.

In addition, key demographic changes in South African society have had an important influence on the sector. The ever-increasing urbanised middle class, able to afford a house, together with the high growth rate in the number of households over the past decade has resulted in this sector growing at more than double the average population growth rate.

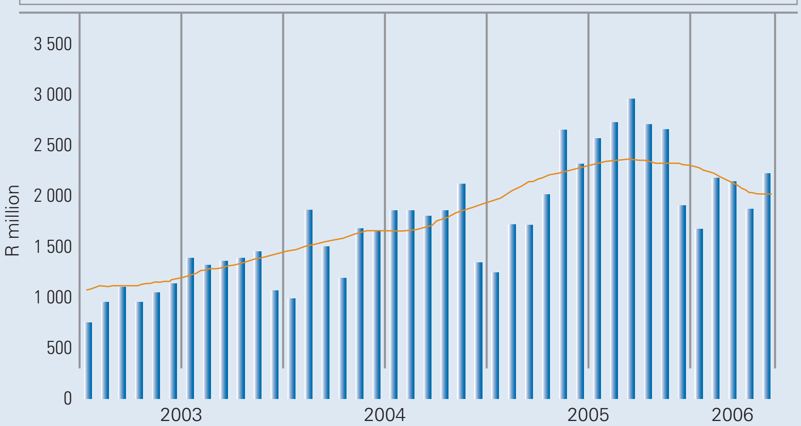
The impact on cement demand by new residential building activity over the next five to 10 years is reflected below on a segmental basis for the sector:

- **Low-cost housing:** The average growth of around 200 000 houses per annum over the past decade is likely to be replicated in the next decade. At 100 kg cement per square metre built (average 30 – 40 m^2 per house), the growth in cement consumption in this segment is unlikely to be significant.
- **Affordable housing:** Banking Association research has established that there is a demand for 625 000 houses in the bondable market. This applies to those low-income earners who can afford a mortgage. This segment is the target of the Financial Sector Charter, yet lack of serviced sites, zoning and approval delays and thin margins are the main reasons given for slow delivery.
- **Middle-income housing:** This has and will continue to be the key growth driver in residential cement consumption. The greater number of households and the upward mobility of SA society is likely to continue to drive demand, albeit with slower growth during periods of higher interest rates and decreasing capitalisation rates in the build-to-let market.

Growth in GFCF (MA % Y-on-Y change) and domestic cementitious sales (MA % Y-onY change)



Total real value of recorded residential building plans passed



Source: Stats SA

- **Luxury housing:** This market segment has expanded tremendously through the proliferation of security estates, foreign investment and coastal developments. Some market saturation is likely to occur soon. Volume growth is expected to flatten in the short term.

Non-residential building

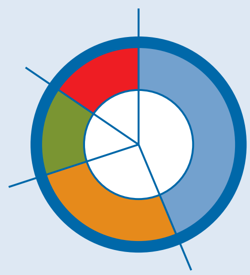
Whilst by no means insignificant, the non-residential building sector is less cement-intensive than residential building. Other materials are prominent in many industrial buildings and cladding applications. This segment offers many opportunities for architectural innovation in concrete which could increase the consumption of cement in this sector.

Trend lines of all building plans passed indicate a general slowdown in all residential buildings, but significant growth in non-residential building from early 2005 (See graph on page 43). This confirms the impact on the delays in delivery in the affordable housing and slow down anticipated in the luxury housing segments.

Construction

As highlighted earlier in this review, the construction market is likely to experience high growth with the focus on road, rail and port infrastructure, expansion of the electricity and water supply sectors, and the building of soccer stadiums, airports and hotels.

The retail distribution of cement remains the most important component of cement consumption, with nearly 50% of cement sales occurring in this sector alone. The



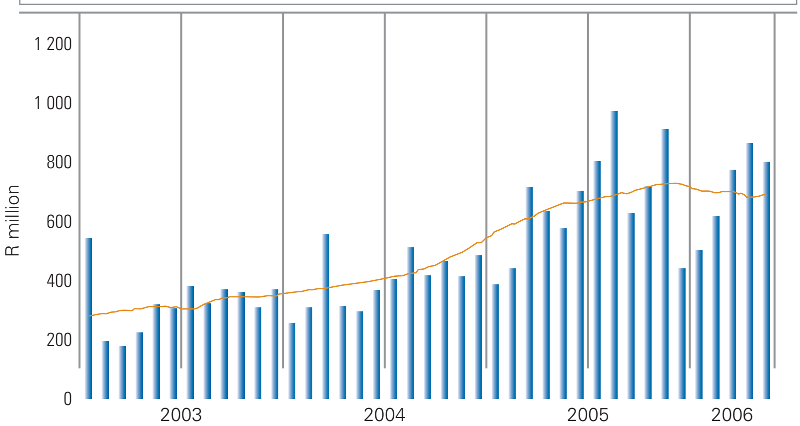
Buying sectors of cementitious products (2006)

- Retail 48%
- Contractors and others 19%
- Readymix 16%
- Concrete products 17%

Source: C&CI

"The demand forecast would suggest that this capacity would be sufficient to satisfy the expected demand growth, to the end of 2012."

Total real value of recorded non-residential building plans passed



Source: Stats SA

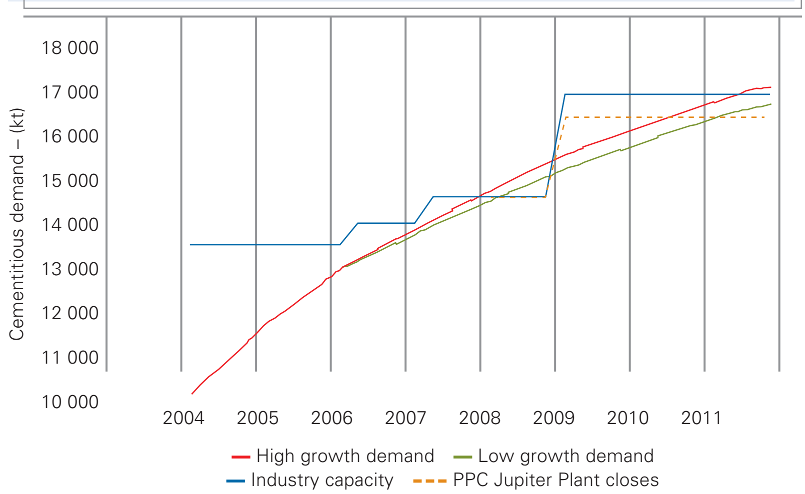
15 to 16 million tons by 2010 (see graph below).

To date, announcements of capacity expansion total 3,3 million tons (including refurbished capacity), bringing total South African industry capacity to 16,5 million tons when fully operational. The demand forecast would suggest that this capacity would be sufficient to satisfy the expected demand growth, to the end of 2012.

readymix industry is growing its market share through improved availability and customer service yet is unlikely to impact on cement consumption.

The 2006 cementitious consumption will be very close to national capacity. In reaction, increases in capacity have been announced and should be operational by early 2009. Based on an expected slowdown in the rate of residential building, and increases in the growth rates in non-residential building and general construction, regional cementitious consumption is expected at around

Capacity against anticipated demand



Source: Aveng, LHA

Board of directors

Carl Grim, Chief executive officer

Richard Savage, Chairman

From left:
Ben Fourie
Dennis Gammie
David Robinson

Executive

Carl Grim (55)
Pr Eng, BSc Eng (Civil), BA, MBA, FSAICE, FSAAE
Chief executive officer
Chairman of the executive and tender risk evaluation committees 8 years' service

Carl Grim acquired varied on-site experience in the construction industry before joining Darling & Hodgson Limited as marketing manager of its materials division in 1982. Following a five-year appointment as general manager of the Cape Ready Mixed Concrete and Quarrying businesses, he was appointed managing director of Blue Circle Cement in 1990, managing director of Darling & Hodgson Limited in 1992 and managing director of the materials operating group of Murray & Roberts Limited in 1995.

Concurrent with the unbundling of Anglovaal in 1998, Carl resigned from Murray & Roberts to take responsibility for Aveng Limited, which was listed on the JSE in July 1999. He is a director of Holcim (South Africa) (Pty) Limited and chairman of Grinaker-LTA Limited, Trident Steel Holdings (Pty) Limited and the Australian-based McConnell Dowell Corporation Limited. Carl is a past president of the Steel & Engineering Industries Federation of South Africa (Seifsa) and the South African branch of the Institute of Quarrying. He serves on the board of the National Business Initiative, the advisory board of the UCT Department of Construction Economics and Management and has been appointed a fellow of the South African Academy of Engineering.

Ben Fourie (59)
Managing director of Trident Steel Holdings (Pty) Limited
Member of the executive committee
31 years' service

Ben Fourie joined Trident Steel in May 1975 and was appointed a general manager and director in October 1977 at the time when Anglovaal Industries acquired a controlling interest in the company. In 1989, he was promoted to the position of managing director of Trident Steel (Pty) Limited and in July 2003 was appointed as managing director of Trident Steel Holdings (Pty) Limited.

Dennis Gammie (52)
CA(SA)
Director: finance
Member of the executive and tender risk evaluation committees
8 years' service

Dennis Gammie spent eight years at Tiger Brands, followed by nine years with the Imperial Group, where he held financial and other directorships. He joined Murray & Roberts Limited as financial director of the materials operating group and after the sale of Blue Circle Limited was appointed to the board of Murray & Roberts Limited as financial director. Dennis joined Aveng Limited as financial director in 1998. He is a director of Aveng Australia Holdings Pty Limited, Grinaker-LTA Limited, McConnell Dowell Corporation Limited, Trident Steel Holdings (Pty) Limited and Holcim (South Africa) (Pty) Limited.

David Robinson (51)
BE (Civil), MIE Aust, CP Eng, FAICD
Chief executive officer of McConnell Dowell Corporation Limited
Member of the executive and tender risk evaluation committees
28 years' service

David Robinson joined McConnell Dowell as a site engineer in 1978, working on various projects throughout Australia and South-east Asia. In 1985 he was appointed state manager for New South Wales and in 1987 general manager for the civil division operations. He was appointed to the position of chief executive officer for McConnell Dowell Corporation Limited in October 2000. He is a member of the Institution of Engineers, Australia, Certified Practising Engineer and a Member of Australian Institute of Company Directors. David is a Director of McConnell Dowell Corporation Ltd and all group operating and holding subsidiary companies in Australia, New Zealand, South-east Asia, Middle East and the United Kingdom. He was appointed to the board of Aveng Limited in January 2005.

Non-executive

Richard Savage (63)
MCom
Independent non-executive director
Chairman of the board and the remuneration committee
Member of the audit and risk, nomination and tender risk evaluation committees

Richard Savage was previously managing director of Haggie Limited. He joined Anglovaal in 1991 and was appointed managing director of Anglovaal Industries


From left:
Angus Band
Leah Gcabashe



From left:
James Hersov
Vincent Mntambo
Myles Ruck
Brian Steele

Limited in 1996. He continued as a director of Aveng Limited following its listing and succeeded Basil Hersov as chairman in 2001. He is a director of Holcim (South Africa) (Pty) Limited, Grinaker-LTA Limited, and Trident Steel Holdings (Pty) Limited.

Richard is also a director of Goodyear South Africa and Air Liquide Southern Africa (Pty) Limited. He is a governor of Rhodes University.

Angus Band (54)
CA(SA)
Independent non-executive director
Member of the audit and risk, remuneration and tender risk evaluation committees

Angus joined AVI as an executive director in 1997 and was appointed managing director of National Brands Limited in 1998 and group chief executive officer of AVI Limited in 1999. He was previously chief financial officer of Telkom SA Limited and commercial director of PG Bison Limited. Angus retired as CEO of AVI and was appointed non-executive chairman in October 2005. He also serves on the boards of Consol Limited and Liberty Group Limited. Angus was appointed to the Aveng board in July 2006.

James Hersov (41)
MA (Cantab)
Independent non-executive director
Member of the audit and risk committee

James Hersov was the co-founder and joint managing director of Otterbea International (Pty) Limited from 1989 to 1994. He was appointed a director of Anglovaal Limited in 1994, as well as a member of the executive committee and a director of all the group's major subsidiaries. From 1997 to 1999 he was an executive director of AVI Limited. He was a director of Control Instruments Group Limited from 1994 to 2000 and a director of WesBank from 1998 to 2000. He is still a director of AVI Limited. James was one of the founding directors of Aveng, having joined the board in 1999.

Leah Gcabashe (49)
BA Admin (NUL), BA Law (Cantab)
LLB (Natal), LLM (University of Pretoria)
Independent non-executive director
Member of the nomination committee

Leah Gcabashe is a practising Advocate, and a member of the Johannesburg Bar. Prior to this she held the position of head-legal services in the Presidency. She has served as a member of the Truth and Reconciliation Amnesty Commission, lectured at the University of Natal (Durban) and worked as a journalist.

She currently serves as a trustee of Penryn Trust and is a non-executive director at Electronic Communications Security (Pty) Limited. Leah was appointed to the Aveng board in August 2003.

Vincent Mntambo (48)
BJuris, LLB, LLM (Yale)
Independent non-executive director
Chairman of the nomination committee and member of the remuneration committee

Vincent Mntambo is the founder and director of Sediba Consulting. He was previously senior lecturer at the University of Natal, executive director of the Independent Mediation Services of South Africa and director general of the Gauteng Provincial Government. He is a director of Eyesizwe Mining (Pty) Limited, chairman of the Commission of Conciliation, Mediation and Arbitration and a non-executive director of SA Tourism. Vincent was appointed to the Aveng board in July 2001.

Myles Ruck (51)
BBus Sc, PMD Harvard
Independent non-executive director

Myles joined Standard Merchant Bank in 1985. In 1996, Myles was appointed deputy managing director of Standard Corporate and Merchant Bank and managing director in 1998.

In 2002 Myles was appointed to the Standard Bank Group Limited Board, as deputy chief executive of Standard Bank Group. He was appointed to the board of Liberty Group Limited in 2003 as chief executive and retired from this position in June 2006.

Myles was appointed to the Aveng board in August 2006.

Brian Steele (63)
BCom, CA(SA), MBA (Stanford)
Independent non-executive director
Chairman of the audit and risk committee and member of the tender risk evaluation committee

Brian held several financial directorships in listed groups in South Africa including CG Smith Limited, Tiger Brands Limited and Malbak Limited. He retired from Barloworld Limited in 2002 and was appointed to the Aveng board in January 2003.

Brian is also an independent non-executive director of African Bank Investments Limited.

Richard Savage, Chairman

Results for the year were pleasing. Revenue exceeded R16 billion, representing a 19% increase on the previous year. Headline earnings were ahead of target and reflect an improvement of 87% on last year. Borrowings decreased sharply with the debt to equity ratio improving from 40% in 2005 to 4% in 2006. The majority of business units reported good results with the exception of Grinaker-LTA Construction which continued to show a loss.

Operations

Grinaker LTA Construction had an improved year – masked by the provision for significant losses at Marikana.

Our Australian subsidiary, McConnell Dowell, performed extremely well. Operating profits increased substantially but, more importantly, positive cash flow was generated during the year. Outstanding claims, were significantly reduced.

The performance of Moolmans improved significantly, and now that it is no longer involved at the Marikana Mine, profits should continue to improve.

The steel and allied cluster again produced excellent results. Our cement associate, Holcim (South Africa) (46% shareholding), had a reasonably good year.

Business environment

Economic conditions facing our group in South Africa, Australasia and the Pacific, are extremely buoyant. However, the shortage of skills, particularly in South Africa, is by far the most serious challenge facing the group. Considering that, as yet, little has been spent by government on infrastructure to support the Soccer World Cup in 2010 or by Transnet and Eskom, the skills shortage will become more acute.

While we welcome the improvement in the financial results of Eskom and Transnet, we are concerned about the level and cost of their services. South Africa can only compete internationally if it continues to enjoy the benefits of being one of the lowest-cost energy suppliers and a reliable provider of transport services. As a country, we need to attract foreign investment but this should not be to the detriment of local consumers. We refer specifically to incentives for terms of electricity supply and the cost of attracting new industry players which will aggravate the present critical shortage of capacity and increase the cost of supply.

Recently world financial markets have been volatile, causing a swing away from emerging markets to safer havens. This has weakened the Rand making manufacturing in South Africa more competitive. This development is to be welcomed within limits. We hope the financial authorities will not respond by excessively adjusting interest rates, as job creation is one of the biggest challenges facing this country.

Rest of Africa, Australasia and Pacific

Whilst there are signs of improvement, the settlement of outstanding payments in the rest of Africa continues to present a challenge to the group. We will increasingly focus our business efforts in southern Africa where there are significant opportunities. As a result of the continued explosive growth of the Chinese economy and its effect on commodity prices, prospects in Australia and neighbouring countries are equally promising.

"Our major challenge is to attract people with the right skills to handle the available work."

Corporate governance
During the last five years, there has been a great deal of focus throughout the world on issues relating to good corporate governance. As a group, we fully support these initiatives. The majority of our directors and members of the various committees are independent.

We are however concerned about the emphasis currently being placed on governance issues as opposed to focusing on running honest and profitable businesses. As a result, expectations of independent directors are becoming more and more onerous. We believe that if this trend persists, there is a real risk that company boards of directors could become dominated by 'technocrats' rather than successful and experienced business people. The same development within audit committees could also result in knowledgeable members with "hands on" experience in the industry not participating in these committees.

We have noted the shift to greater transparency in reporting to shareholders. This development is welcomed. However, we need to guard against increasing the complexity of reports such that they become less understandable to the man in the street who is also an important provider of capital.

Broad-based black economic empowerment
During the previous year, we successfully concluded transactions within Grinaker-LTA and Trident Steel with an empowerment consortium led by the Tiso Group. During 2006, we continued to build a good relationship with our empowerment partners and their participation in our activities has been most welcome. Moreover, as ownership is only one aspect of empowerment we are equally aware of the importance of training, skills development, employment equity, enterprise development and procurement strategies to effective transformation.

Board matters
We were sad to say farewell to Howard Jones, former managing director of Grinaker-LTA Construction, who joined Grinaker 37 years ago. Howard played a significant role in the construction industry in South Africa and made a major contribution to the implementation of the merger of Grinaker and LTA. Howard, we wish you well in your retirement and thank you for all your years of dedicated service to the group.

We also thank Wendy Lucas-Bull for her brief contribution to the board. Wendy resigned at the end of March 2006 due to potential conflicts of business interests.

Thanks also to Karl Meissner-Roloff, who subsequent to the year end resigned from the Aveng board to enable him to dedicate his efforts to the management of Holcim (South Africa) (Pty) Limited.

Mindful of the fact that during the next five years, half our independent non-executive directors will be retiring, we welcome Angus Band and Myles Ruck as independent non-executive directors. We believe both gentlemen will make a major contribution to the future development of the group.

Prospects
Despite volatility in world markets and the dangerous situation developing in the Middle East, prospects are good, particularly in South Africa and Australasia. As a group, our major challenge is to attract people with the right skills to handle the available work. Our primary aim is to continue to increase group profits, and more importantly to return Grinaker-LTA Construction to profitability.

Appreciation
The group enjoyed another good year and I am grateful to the executive team and to all our employees for their dedicated service. I also appreciate the diligent support and contribution of our independent directors.

Richard Savage
Chairman

Carl Grim, Chief executive officer

Group overview

The Aveng group made considerable progress towards improved profitability during the past year, considerably assisted by buoyant market conditions.

For the 12 months to 30 June 2006, we comfortably exceeded our long-term corporate objectives:

Corporate objectives	Target	Achieved
Growth in diluted headline earnings per share of CPIX + 10%	14,3%	74,6%
Return on average equity of CPIX + 10%	14,3%	18,9%
Net debt to equity ratio of 35%	35%	3,8%

These 'long-term average' corporate objectives are not sufficiently challenging for the current business environment and are being reviewed by the board.

Other key indicators show that our group is making tangible progress in building sustainable shareowner value:

- Revenue growth of 19% to R16 billion
- Cash generated by operations improved by R464 million to R1 114 million
- Capital expenditure of R760 million
- Net debt : equity ratio of 3,8% compared to last year's 40%
- Operating profit before amortisation and non-trading showing a growth of 111% to R613 million yielding a margin of 3,9%

During the year, the construction sector charter was signed by the Minister of Public Works and all stakeholders. Aimed at transformation, the objectives of the charter are closely aligned to those of our group and Aveng scores well on some of the long-term (seven years) and interim (four years) targets, specifically broad-based black economic empowerment. With the Tiso-led consortium as partner, Grinaker-LTA and Trident Steel have empowerment structures in place at shareowner level and independent verification of these empowerment credentials is under way. We believe our responsibility to contribute to the empowerment of previously disadvantaged South Africans is integral to being a model corporate citizen and a truly South African company. We will therefore continue to proactively participate in the formalisation of the charter as a code of practice and support its implementation in our sector.

We have incorporated the principles of sustainable development into every facet of our business, acknowledging our responsibility to current and future generations and the role we must play in preserving our environment and contributing to the quality of life of communities in 29 countries around the world.

Our commitment to sustainable development is reflected in the frameworks that guide our businesses including King II, the Global Reporting Initiative, the JSE's Socially Responsible Investment Index, the Construction Charter and our own group Code of Business Conduct.

“Key indicators show that our group is making tangible progress in building sustainable shareowner value.”

Highlights of our progress towards an improved “triple bottom line” include:

- Economic – black economic empowerment partners own 25% of each of Grinaker-LTA and Trident Steel (80% of group revenue); through our enterprise development and joint venture initiatives, 11 empowered companies are being nurtured into self-sustaining entities; our procurement from empowered companies totalled 18,3% of discretionary spending against our target of 20%.
- Social – as set out in our formal employment equity plans, people from designated groups now comprise 14% of senior management, 34% of professional categories and 54% of technical categories; over 12 000 people, mostly black, received training during the year; we spent 3,6% of headline earnings (R13,2 million) on corporate social investment projects.
- Environmental – across Aveng, international standards and best practices are in place or being implemented to minimise our impact on the natural world. To date, Aveng has caused no major environmental impact nor received any fines for non-compliance with environmental regulations in any operational area.

Given the nature of our business, safety is of paramount importance, our efforts being recognised by a number of safety awards received by subsidiary companies during the review period. The group disabling injury frequency rate – lost time due to injuries per 200 000 man-hours worked – was 0,65 (2005: 0,69) for the year against a target of 0,5 and industry average of 8,6 as recorded by the Compensation Commissioner. While the year-on-year improvement is commendable, we remain committed to a short-term goal of 0,5 and to our ultimate goal to have an injury-free working environment.

Engineering and Construction: South Africa and Africa

Aveng’s South Africa and Africa engineering and construction cluster comprises Grinaker-LTA Construction, Moolmans and E+PC, together accounting for 50% of group revenue. This cluster has continued to show a loss for the year, largely as a result of the R156 million provision made against all amounts due by Aquarius Platinum for the Marikana Mine contract. Overall, the businesses are well positioned to provide specialised services to selected clients across the region in an increasingly buoyant market environment.

Engineering and Construction: Australasia and Pacific

The significant increase in both revenue and operating profit for the review period confirms the turnaround under way as reported at the interim stage. The 65% growth in revenue underscores the exceptional success this company has had in securing work in its region over the past year. The Ebit to revenue ratio is rapidly approaching the group’s short-term target of 3,0% and medium-term objective of 4,5%. McConnell Donnell has grown to half the size of Grinaker-

Engineering and Construction: South Africa and Africa cluster

Rm	**2006**	2005
Revenue	**7 498**	6 765
Operating profit	**(125)**	(65)
Assets	**3 227**	3 427
Liabilities	**2 399**	2 377
Capital expenditure	**423**	298
Depreciation	**186**	249

LTA Construction and contributes around 18% of Aveng's revenue.

Steel and Allied

The Steel and Allied cluster, which incorporates Trident Steel, Manufacturing and the Aveng corporate office, is focused on manufacturing, beneficiating and trading steel and concrete products for the construction, mining, manufacturing and automotive industries. Overall, the outstanding performance for the year reflects continuous improvement in operating efficiencies and strong demand from the housing, civil engineering and motor industries.

Steel and Allied contributed 35% of group revenue for the year (2005: 37%), and being a strategic growth area for the Aveng group, will continue to enjoy high levels of capital allocation in future to enable it to participate to an even greater extent in the infrastructural investment expected in the medium term

Cement

Aveng's cement interests consist of its 46% stake in Holcim (South Africa) (Pty) Limited. While Aveng has active board and board committee involvement and interacts regularly with management, management control of the company rests with the 54% shareowner, Holcim Ltd, based in Switzerland.

Subsequent to Aveng's year end, Holcim Limited announced on 25 August 2006 that it wished to sell 85% of its share in the South African business, held through Altur (Pty) Limited, to an empowerment consortium that includes management and staff. The transaction is based on an enterprise value for Holcim (South Africa) of R15,5 billion.

In considering its response to this proposed transaction, Aveng will seek to diligently discharge its fiduciary duty to shareowners, in the context of its commitment to sustainable black economic empowerment in the cement industry.

Aveng's interest in Holcim (South Africa) is equity accounted and therefore does not reflect in Aveng's revenue or operating profit.

Looking forward

Aveng operates in those regions of the world where considerable investment in non-residential and engineering construction is taking place. The group's capabilities are at a premium internationally.

Within South Africa key macro indicators support the expectation that while there may be a flattening off in residential demand, the broader South African construction industry is in a period of significant and sustained growth. The low interest rate environment that has fuelled one of the strongest consumer booms in decades appears to have turned. However its effects will still be evident in the upstream supply chain, mainly retail, logistics and manufacturing for at least 12 months. The Australasia/Pacific region has a similar prognosis – largely driven indirectly by activity

Steel and Allied Cluster

Rm	**2006**	2005
Revenue	**5 601**	4 974
Operating profit	**671**	473
Assets	**3 472**	3 045
Liabilities	**1 312**	1 180
Capital expenditure	**161**	121
Depreciation	**97**	98

“The Aveng of 2007 is focused, more efficient and increasingly profitable in all business units. Market activity is buoyant on all fronts.”

levels in China. Commodity prices, particularly oil and precious metals, have placed further demands on our industry internationally.

The implications for all Aveng’s revenue streams – construction, manufacturing and cement – is positive although the magnitude of the effect does differ between the sectors, with the upside potential being most pronounced in construction.

Civil engineering leading indicators continue sharply higher and our construction order book has passed its previous high and is comfortably ahead of our internal target. Aveng has the skills and structures in place to participate meaningfully in the expected private sector growth in gross fixed capital formation, particularly mining expenditure. The government’s planned R370 billion infrastructure spending over the next three years as it strives to accelerate spending on fixed assets and infrastructure towards its stated target of 25% of GDP by 2014, will be strongly supported by Aveng.

Already evident in McConnell Dowell, we will witness a significant upward movement in Grinaker-LTA Construction profit margins in the years ahead.

Growth prospects for the steel and cement industries are more muted but nonetheless positive. We welcome the government-led strategy to increase the proportion of value-added products in the domestic steel industry, an initiative that will be of particular benefit to Trident Steel. In the cement sector, the long-term trend towards rising per-capita consumption is positive for our group although industry-wide capacity constraints are expected to come to the fore in the short term.

Against this background, some fundamental challenges remain. The shortage of suitable skills highlights the need for concerted talent development programmes – at company and national levels. In the global marketplace, and particularly in the construction sector, efficiencies in areas such as procurement and operations are critical in securing contracts. Risk management continues to be an enormous challenge.

The Aveng of 2007 is focused, more efficient and increasingly profitable in all business units. Market activity is buoyant on all fronts – operationally and geographically. We are confident that Aveng has a meaningful role to play in turning public and private infrastructural investment targets into reality – and in so doing delivering attractive returns for all stakeholders.

Acknowledgements

Around the world, some 30 000 people – most of whom are in South Africa – focus their considerable efforts on achieving Aveng’s objectives. Their daily commitment, often under arduous conditions, is both humbling and inspiring. For this I thank them sincerely. The calibre of Aveng’s senior executives and their passion to serve our clients and their people is no less inspiring. I have enjoyed wokring with every one of them.

The continued support of customers, shareowners, suppliers and other business associates is greatly valued and I wish to thank them for their ongoing confidence in our group.

Carl Grim
Chief executive officer

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1. Piling works on the Goro Nickel Marine Facilities Project, New Caledonia.
2. Islington-Kikiwa B: Second circuit wiring TTU project, South Island, New Zealand, completed by McConnell Dowell subsidiary Betrix.
3. Pipelaying on the 217km long Burdekin to Moranbah water pipeline, Queensland, Australia.

"McConnell Dowell is well placed to deliver even better results in the new financial year."

David Robinson, Chief executive officer

McConnell Dowell Corporation

Rm	2006	2005
Revenue	**2 956**	1 796
Operating profit (consolidated)	**68**	(117)
Assets	**982**	787
Liabilities	**862**	433
Capital expenditure	**177**	50
Depreciation	**55**	37
Employees	**4 624**	1 800

Profits for the year are not strictly comparable to the prior year, given the inclusion of once-off adjustments in the previous year relating to legacy contracts and aligning profit-recognition practices with those of Aveng. The business successfully completed its strategic review and repositioning exercise during the year and is fully provided for all legacy or other problematic contracts.

With activities approximately equally split between Australia and Southeast Asia/Pacific, McConnell Dowell concentrates primarily on civil and marine construction (54% of revenue and headed by Charles Hall), mechanical and pipelines (22% of revenue and headed by John Hearst and Mark Twycross respectively, with Ian Gordon looking after Middle East operations) and finally electrical maintenance (24% of revenue and headed by Gavan Jackson).

The disputes surrounding legacy contracts, some dating back seven years and entered into by previous management, have largely been settled. Progress on the three remaining contracts has been slow, but management expects to resolve these in the near future.

Since acquiring the McConnell Dowell minorities three years ago, good progress has been made in establishing a sustainable base for this operation, a key element in Aveng's geographic diversification. With strong management in place, McConnell Dowell is entrenching its ability to manage large turnkey projects in highly specialised niche markets. Current projects span Western Australia, Queensland, Indonesia, Singapore and Tasmania for a range of public and private sector clients.

Order books are particularly full with Civil & Marine at R3,1 billion, Mechanical & Pipelines at R1,4 billion and Electrical Maintenance at R800 million – the majority of this work being scheduled for 2007.

McConnell Dowell is well placed to deliver even better results in the new financial year.

1. The civil works for the crusher portion of the Sishen Expansion Project, under construction by Grinaker-LTA Civil Engineering in joint venture. It is also responsible for the Jig Plant, Beneficiation Works and Infrastructural portion of the project.
2. The radar tower at Cape Town International Airport built by Grinaker-LTA Civil Engineering.
3. The Mondior Concorde hotel in Kempton Park built by Grinaker-LTA Building.
4. The MR5 and MR6 roads in Swaziland which will connect the villages of Mliba, Madlangempisi, Tshaneni and Msabeweni, is being built by Grinaker-LTA Roads and Earthworks. Grinaker-LTA Civil Engineering is responsible for the eight bridges and 22 culverts on the project.
5. The Juliette luxury apartment block at the V&A Waterfront in Cape Town built by Grinaker-LTA Building.

"Overall, the businesses are well positioned to provide specialised services to selected clients across the region in an increasingly buoyant market environment."

Grinaker-LTA Construction

Eddie du Rand, Managing director

Rm	2006
Revenue	**5 658**
Capital expenditure	**147**
Major markets	**RSA, Africa**
Employees	**11 224**

The financial performance of Grinaker-LTA Construction continued to disappoint with a small loss being registered for the year. This is largely the result of the continued difficulties being experienced in realigning Roads and Earthworks as well as losses incurred on building contracts in Angola and the Western Cape. Where contracts have not yet been completed, we have provided fully for all estimated losses to completion.

Building and Property Development, headed by Neil Cloete and Bill Fenner respectively, generated approximately 32% (2005: 34%) of Grinaker-LTA Construction's revenue. These business units focus on large non-residential and industrial projects, generally private sector contracts and negotiated work for blue-chip clients. They are active in major metropolitan centres in South Africa, and Building has a presence in Nigeria and Angola. With its proven ability to manage sub-contractors who account for the bulk of their activities, these business units focus on generating acceptable margins by managing risk and providing expert project management. Highlights of the review period included the construction of a R135-million management training facility for Standard Bank (including parkade, accommodation block, auditorium, open hall and classrooms) and the R220-million development of a new theatre, function hall, hotel and parkade at Montecasino. The stand alone property development business, RPP, serves the motor industry, commercial, industrial and residential sectors.

With a considerably larger order book of R1,86 billion, R1,56 billion of which is for 2007, prospects for these business units look promising.

Civils, Roads and Earthworks and Underground Mining Contracting, headed by Schalk Ackerman, Graham Browne and Eugene Erasmus respectively, contributed approximately 45% (2005:38%) of Grinaker-LTA Construction's revenue. The Civils business unit concentrates on heavy industrial projects in South Africa, some of which are highly specialised such as the R250-million paint shop for Toyota, and the R600-million Berg River Dam in joint venture with Roads and Earthworks. Roads and Earthworks is completing its last African road contract (Tanzania), which is expected to make a small profit, following which it will only operate in South Africa and neighbouring territories. We expect the business unit to return to profitability this year. The Underground Mining Contracting business unit prepares underground access and extraction facilities for coal and platinum mining groups and undertakes limited contract mining in southern Africa without assuming any commodity price risk.

With an order book of R2,0 billion, R1,3 billion of which is scheduled for 2007, this business unit has some excess capacity to capitalise on new opportunities in its field in the new financial year.

Mechanical and Electrical, headed by Vince Olley, contributes around 23% (2005: 26%) of Grinaker-LTA Construction's revenue. Operating primarily in South Africa and Nigeria, it serves blue-chip clients in the oil and gas as well as metals and minerals industries. Having established the necessary credibility with large oil companies, particularly in West Africa, it is well positioned to capitalise on high levels of offshore activity, such as the construction of a R170-million subsea project currently under way in Port Harcourt, Nigeria. Recent consolidation has eliminated non-core operations and streamlined the business unit and its specialised subsidiaries, reflected in an improved order book for the new financial year. Its order book stands at R940 million, practically all scheduled for execution in 2007.

Towards the end of the year, Eddie du Rand, previously managing director of Mechanical and Electrical was appointed to head Grinaker-LTA Construction, bringing considerable industry experience and management expertise to bear on this leading South African construction group.

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1. Golden Pride Mine in Tanzania.
2. Terex RH 200 shovel loading a CAT 789 truck at the Marikana Mine, South Africa.
3. Terex RH 90 loading a CAT 777 at Golden Pride Mine.

"With strong order books for projects in Africa and some excess capacity, Moolmans is actively seeking new contracts in South Africa."

Moolmans

Brian Wilmot, Managing director

Rm	2006
Revenue	1 545
Capital expenditure	270*
Major markets	Africa, South Africa
Employees	3 523

** Included are leased assets purchased and resold amounting to R113 million in respect of Marikana.*

Moolmans is an opencast contract mining business with operations in South Africa, Mali, Guinea, Tanzania, Namibia and Botswana.

The dispute, detailed in the previous annual report and discussed further in the financial director's report, between Moolmans and Aquarius Platinum (South Africa) (Pty) Limited, relates to mining contracting services to the latter's Marikana mine. Provisions have been made for all amounts owing at 30 June 2006. The provisional amount in respect of deductions from certified work and closure costs amounted to R156 million at the year end and R105 million at the interim stage. Moolmans' entitlements in terms of the contract are being vigorously pursued.

Outside of Marikana, where there were additional operating losses due to working conditions that were not conducive to the efficient use of the size of equipment deployed, Moolmans was profitable for the year. With the majority of its revenue being earned in US dollars, Moolmans remains vulnerable to a strong rand and is still absorbing the effect of large investments in its fleet made at significantly weaker rand to dollar exchange rates.

Highlights of the period included the continuation of a number of large contracts for AngloGold Ashanti and its partners in West Africa, namely the openpit mining activities at Yatela and Sadiola in Mali and Siguiri in Guinea. A new contract for a uranium mine at Langer Heinrich in Namibia was concluded with mining scheduled to start in the first quarter of the new financial year.

With strong order books for projects in Africa and some excess capacity, Moolmans is actively seeking new contracts in South Africa. The order book for 2007 stands at R1,1 billion and for 2008 at R930 million – the majority of which is outside South Africa.

1. Mufulira Smelter Expansion Project Phase 1 for Mopani Copper Mines in Zambia.
2. Lagos Refined Product Facility Project for Energem in Nigeria.
3. Namakwa Sands Project 1 000 at Brands se Baai in the Western Cape.

"Reinforced by the significant amount of work secured since the year end, Aveng believes the considerable risk-adjusted opportunity presented by E+PC warrants investment in its continued growth."

E+PC Engineering & Projects Company

Nick Bell, Chairman

Rm	2006
Revenue	295
Capital expenditure	6
Major markets	Southern Africa
Employees	326

During the review period, Grinaker-LTA Process Engineering was successfully rebranded as E+PC Engineering & Projects Company, focused on providing upstream engineering and project management services to niche customers in the mining, energy and industrial sectors. E+PC has projects under management of some R4 billion.

This operating group is steadily building a reputation for adding value by developing innovative solutions to the challenges faced by niche mining and energy and refinery clients. Highlights of the review period include the R1,3 billion first phase of the Mufulira smelter expansion in Zambia for Mopani Copper Mines and the implementation phase for the Lagos Refined Product Facility for Energem Nigeria Limited. Notable project awards include the Namakwa Sands Heavy Minerals Expansion project, Anglo Platinum's Waterval Retrofit project, in joint venture, and modification to Sasol's Unit 267/265 at Secunda.

Studies with a combined capital value in excess of R3,8 billion are currently being managed by E+PC. These include Gold Fields Ghana's Tarkwa Expansion feasibility study, Kumba's Grootegeluk Matimba Expansion feasibility study, the Letlhakane pre-feasibility study for Debswana and the detailed engineering for Holcim's Roodepoort grinding plant expansion. Over the past twelve months in excess of 4,2 million man hours were recorded on direct projects with one disabling injury. This equates to a DIFR of 0,14. Some 500 000 man-hours were recorded on direct projects with no disabling injuries (DIFR = 0).

The Metallurgical Operations division of E+PC was awarded the contract to operate and maintain the Two Rivers Platinum Concentrator on behalf of ARM/Impala. This contract complements the existing coal and gold operations.

The order book at year end is R300 million, the majority of which is scheduled for execution in 2007.

Reinforced by the significant amount of work secured since the year end, Aveng believes the considerable risk-adjusted opportunity presented by E+PC warrants investment in its continued growth.

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1. Concrete piping by Infraset.
2. Duraset provides a comprehensive range of products and services to the mining industry.
3. Steel reinforcement by Steeledale on the Berg River Dam.
4. Lenning Rail Services' Matisa P190 Track Renewal Train.

"Manufacturing, being a strategic growth area for the Aveng group, will continue to enjoy high levels of capital allocation in future to enable it to participate to an even greater extent in the infrastructural investment expected in the medium term."

Manufacturing

Doug Keet, Managing director

Rm	2006
Revenue	2 139
Capital expenditure	79
Major markets	Southern Africa
Employees	3 058

Revenue was largely generated by construction (86%) and mining (12%) customers with exports accounting for the balance. Business units include Steeledale (MD: André Nienaber), a market leader in beneficiating steel reinforcing bars and mesh for concrete structures; Infraset (MD: Chris Visser), which manufactures concrete products for the infrastructural market – from rail to landscaping; Duraset (MD: Johann Smit), which manufactures steel and concrete products for the mining industry; and Lennings Rail Services (MD: Wouter de Gidts), which provides a highly sophisticated range of construction and maintenance services for South Africa's transport utility, Transnet, and other rail customers.

Steeledale, largely dependent on activity levels in the civil engineering industry, has been particularly active over the past year. Infraset, linked indirectly to consumer demand, has been equally active. Duraset, dependent on the mining industry, still has considerable spare capacity – as does Lennings Rail Services as Spoornet's maintenance programme is yet to gain discernible momentum.

In preparing for the increased demand that is now beginning to materialise, Grinaker-LTA Manufacturing has invested significantly in expanding capacity and in extending its product ranges. Recent capital expenditure has been deployed to the wire drawing, mesh welding, reinforcing, paving and tile plants. The Operating Group unit has also allocated substantial capital expenditure to rail track renewal and to tamper stabilising equipment for its major customer, Spoornet, South Africa's primary rail transport utility.

This level of capital investment will continue in the new financial year, positioning Grinaker-LTA Manufacturing to play a material role in infrastructural development projects.

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1. Steel coils stacked in the service centre.
2. Strip moving through a cut-to-length line.
3. Processed plates about to be packed.
4. View of a cut-to-length line from the control desk.

"Levels of activity are exceptionally buoyant at present, auguring well for continued growth and increased profitability."

Trident Steel

Ben Fourie, Managing director

Rm	2006
Revenue	3 910
Capital expenditure	38
Major markets	South Africa
Employees	1 629

Trident Steel and its subsidiaries beneficiate steel for customers in the construction (20% of revenue), automotive (30%) and general engineering (40%) sectors. Some 10% of revenue is generated by exports, mainly into Africa. Activities include decoiling steel and pressing blanks for vehicle body components, shaping and bending steel plate for manufacturers, and cutting steel beams and other long products for the construction industry. Trident Sterling Tube manufactures steel tubing up to 177mm in diameter for the construction industry. Trident Speciality Steel supplies cut-to-size high-carbon steels, spring steel and other specialised steels for the higher-end manufacturing industry.

Some two-thirds of Trident's turnover is derived from adding value to bulk steel, primarily through customised cutting in its service centres. Value-added processes are a growing component of revenue. Trident now has seven strategically located steel service centres around South Africa – Roodekop, Alrode, Port Elizabeth, Rosslyn, Prospecton, Pinetown, Cape Town and Saldanha. The largest of these, Roodekop, provides single sources of supply for customers.

To enhance service capability, several large capital investments have been made in recent years. The most recent of these is a pipe mill for Trident Sterling Tube.

Drawing on a proven record of operational efficiencies, sophisticated equipment and high productivity, Trident has become a preferred supplier to premier customers in the automotive, construction and general engineering sectors.

To counter the volatility of prices in the domestic steel market in recent times, Trident Steel does not take significant risk on the steel price, quoting its customers the steel mill price plus an agreed service fee per ton.

Levels of activity are exceptionally buoyant at present, auguring well for continued growth and increased profitability. In line with Trident's succession plan, Ben Fourie retires at the end of 2006, handing over to Richard Martin, currently deputy managing director and a long-time employee of the group.

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1. Holcim (South Africa's) newly refurbished kiln 2 at the Dudfield cement plant near Lichtenburg.
2. Roodepoort cement and blending plant.
3. Ulco cement factory outside Kimberley.

"The R160 million refurbishment of Dudfield kiln 2 to align emission levels with international standards was completed on schedule during the review period."

Holcim (South Africa)

Karl Meissner-Roloff, Managing director

Rm (100%)	2006	2005
Revenue	**4 535**	3 967
Operating profit (consolidated)	**1 156**	1 099
Assets	**2 127**	1 881
Liabilities	**624**	502
Capital expenditure	**387**	145
Depreciation	**112**	118
Net debt/equity	**34%**	2,1%
Employees	**1 848**	2 095

Holcim (South Africa) is controlled by the world's second largest cement company, Holcim Limited. In an excellent partnership that spans six decades, Holcim has provided the cement manufacturing expertise and Aveng the local market knowledge.

Driven largely by consumer demand, the business of Holcim (South Africa) is roughly equally split between its South African cement business and its other interests in Tanzania, slagment, ready-mixed concrete, sand and stone. It has an estimated one-third share of the local cement market, and cementitious capacity of 4,1 million tons per annum from three factories (Dudfield, Ulco and Tanga) with the associated grinding, blending and dispatch facilities.

Subsidiaries include Slagment (Pty) Limited and a 62,5% interest in the listed Tanzanian cement operation, Tanga Cement, which has a cementitious capacity of 500 000 tons per annum.

The R160-million refurbishment of Dudfield kiln 2 to align emission levels with international standards was completed on schedule during the review period, following an earlier postponement to accommodate increased demand. By accumulating stocks, and importing cement, service continuity to customers was ensured during the 15 week shut-down period.

The effect of this shut-down was to reduce Holcim's annualised production by about 6%.

Together with other South African cement companies, Holcim (South Africa) is running close to maximum capacity. During the year, the first shipment of imported cement into East London to supplement the shortfall from Dudfield during its kiln refurbishment, was completed. Additional imports are being actioned as dictated by market demand.

The company has announced an expansion to its grinding and blending capacity at the Roodepoort facility at a cost of around R400 million. The board is committed to the future expansion of the company's clinker capacity, regularly reviewing a number of available options in the context of demand projections and capacity growth initiatives by its competitors.

Dennis Gammie, Director: finance

Introduction

The group informed the market on 24 August 2006 that full-year headline earnings were expected to be between 40% and 60% higher than reported in the previous year. Prior to the restatement of the corresponding earnings at June 2005, growth in headline earnings and headline earnings per share was 65,7%.

Aveng has adopted IFRS2: *Share-based payment* in the review period which necessitated the restatement of the corresponding period to June 2005. In prior years, Aveng provided for the share option liability by calculating the maximum exposure of all vested and unvested options at market value, less the realisable market value of shares held in trust. This was appropriate in the absence of any specific accounting guideline. Following the introduction of IFRS2, only that portion of the options that have vested should be valued in terms of an option pricing model. The value of treasury shares may not be deducted from the liability. In addition, the group has elected to continue to account for all share options issued and not only those issued after 7 November 2002 as required by the standard. The transitional provisions of IFRS2 require that all cash-settled share-based payment liabilities be accounted for retrospectively. This resulted in a restatement of the comparative year as well as an adjustment to the opening balance of the 2005 retained earnings. The share option cost provision attributable to subsidiaries is included in operating expenses. The share option cost provision attributed to Holcim (South Africa) is expensed to income from associates and joint ventures in the income statement. The effect on the current and prior year's income statement and the cumulative effect on the balance sheet of the current and prior year is detailed in note 31 to the financial statements.

Accounting for the effect of the black economic empowerment transaction concluded in 2005 is in terms of IFRS2. At each reporting date, Aveng is required to estimate the number of shares that will be issued on close out of the black economic empowerment transaction, as if the deal were closing out at the reporting date. The resultant diluted shares calculation is based on the value created in terms of the exercise price, which is determined at 80% of the value of the Qakazana empowerment entity after deducting the value of the unredeemed preference shares. At 30 June 2006, no value had been created therefore there is no dilution in the current year relative to black economic empowerment.

On 28 October 2005, shareholders approved the conversion of Aveng's R1-billion convertible bond (seven-year 6,125% convertible bond) into equity, at any time, at a price of R15,27. This equates to 65,5 million shares. Aveng has the option to redeem all the bonds on or after 17 March 2009 at a share price of R19,85. The close-out date for the conversion of this bond into equity is 17 March 2012. The diluted weighted average number of shares has been

"Headline earnings per share increased by 87%, and earnings per share by 70% relative to restated 2005 results."

increased by approximately 65,5 million in anticipation of the conversion. At 30 June 2006, the dilution effect is just below 7%. Consideration should be given to the fact that this convertible bond is equivalent to a rights issue which would have been executed at a 10-15% discount to the then ruling share price. The convertible bond was actually issued at a 22% premium to the share price. Arithmetically, for shareowners to be in a poorer position financially, the dilution effect would need to exceed 32%. The convertible bond has also had many other positive effects on the company.

Disputes

In December 2005 Aquarius Platinum (South Africa) (Proprietary) Limited purported to rescind the contract with Moolmans on the basis of an alleged misrepresentation of the weightings in an escalation formula that was tabled for discussion at the time of tender, late in 2001. It contends that there was never a valid contract and has issued proceedings out of the High Court for R963 million for damages.

This is being defended, and substantial counterclaims are being pursued.

Moolmans maintain that there was never any misrepresentation and that the arbitration proceedings instituted for escalation payments due remain valid. Aquarius has brought a court application in an attempt to stay the arbitration. This application is being resisted by Moolmans.

Moolmans has not been paid by Aquarius for actual work done in December 2005 in an amount of R31 million.

The escalation amount in dispute is in the order of R214 million. This is made up of deductions made to certified sums of R156 million, and escalation payments due of R58 million.

There are other substantial amounts owed by Aquarius, which arise from variations to rates caused by incorrect geological information, short payment for work performed as identified in the final agreed survey, lack of warranted work for specialised equipment acquired specifically for Marikana, closure costs and damages.

These amounts will be claimed either as a counterclaim to the Aquarius damages action, or by way of separate arbitration.

A dispute exists in Australia with BHP Billiton over the Minerva project termination. McConnell Dowell has taken action against BHP Billiton to recover costs incurred due to the early termination of the contract. BHP Billiton have counterclaimed for damages against McConnell Dowell.

Dividend

Aveng's policy is to maintain a dividend payout ratio of approximately 25% of headline earnings, distributed to shareowners as a single payment each year. On Friday, 8 September 2006 the board approved a dividend of 38 cents (2005: 23 cents) per share, payable on Monday, 23 October 2006. The last day to trade shares cum dividend will be Friday, 13 October 2006. Shares will trade ex dividend on Monday, 16 October 2006. The record date is Friday, 20 October 2006.

Operating performance

Revenue of R16 billion increased by 19% for the year due to improved trading conditions in both domestic and international construction markets and buoyant activity in the steel and allied businesses. Operating profit increased by 111%. The operating profit before amortisation and non-trading items (EBIT margin) has improved from 2,0% in 2005 to 3,9%

in the review period, fast approaching the target of between 4,5% and 6,0%.

Income from associates and joint ventures, net of tax, of R249 million is R21 million less than earned in the previous period as a consequence of the construction sectors associates and joint ventures having recorded losses of R29 million for the year. Holcim (South Africa) is held 100% by Altur Investments (Pty) Limited, the 45,65% held entity that is equity accounted by Aveng. Altur is the vehicle through which all dividend distributions to the two shareowners, Holcim Limited and Aveng flow. The increased dividend flow during the reporting period resulted in additional STC payments of R45 million during the year. Holcim (South Africa) was also involved in a price war in the Namibian market. This together with the learning curve experienced by importing cement into the South African market, at virtually no margin, has impacted on the current years financial performance of Holcim (South Africa).

Aveng's geographical spread and differing taxation regimes make it difficult to manage the taxation cost. In certain instances group companies pay tax whilst losses are simultaneously being incurred in other jurisdictions, thus resulting in either a low or high effective overall tax rate. The group is also affected by currency fluctuations when reporting foreign earnings in South African Rand. Management uses appropriate accounting guidelines and reports accordingly.

Earnings per share

Headline earnings per share increased by 87%, and earnings per share by 70% relative to restated 2005 results. Assuming that the 2005 results had not been restated, headline earnings per share would have increased by 66%, and earnings per share by 52%. Aveng posted headline earnings per share of 154,9 cents for the year in comparison with the 83,0 cents (93,5 cents prior to restatement) for 2005.

The application of IAS 16: *Depreciation* ... reduced the depreciation charge by R20 million.

The diluted weighted average number of shares has increased by 65,5 million in anticipation of the conversion of the bond into equity. The consolidation of the Aveng Limited Share Incentive Trust which holds 6,9 million (2005: 6,9 million shares) Aveng Limited shares, serves to reduce the number of shares in issue.

Interest

Net working capital days decreased from nine days to six days, resulting in a cash inflow of R379 million. Net interest paid of R82 million decreased by R85 million over the prior period, partially as a result of the bond interest rate of 6,126% and secondly due to better working capital management. The group's fixed long-term borrowings of R1 418 million at June 2005 decreased to R1 146 million at June 2006. Net interest cover, which includes associate company income, has improved from 3,8 times cover to in excess of 10,8 times cover.

Shareowners' funds

Share capital increased by R140 million as a result of the equity portion of the convertible bond. Total ordinary shareowners' funds increased by R672 million to R3,5 billion. The foreign currency translation reserve included in total ordinary shareowner funds is R392 million.

"Aveng's policy is to maintain a dividend payout ratio of approximately 25% of headline earnings, distributed to shareholders as a single payment each year."

Net borrowings

Interest-bearing borrowings exclude the R140 million equity portion of the convertible bond. The remaining R860 million will be increased over the duration of the bond to reflect borrowings of R1 billion in 2012 (the close out date for this instrument). Further details are in note 11 to the annual financial statements. The net debt-to-equity ratio for the reporting period is around 4% compared to 40% in the prior period. This net debt-to-equity ratio has been affected by the restatement of 2005 comparative results following the adoption of IFRS. Discounting some cash receipts for projects still to be executed and the effect of the R140 million being added to equity, the net debt to equity ratio would be around 25%, still well below the 40% of 2005 and the group's target of 35%.

Aveng's expansionary capital expenditure was R406 million (2005: R262 million) and replacement capital expenditure R355 million (2005: R207 million). Total capital expenditure was R760 million (including the capitalisation of leased equipment). The net outflow of cash on capital expenditure was R555 million compared to R313 million in the previous year.

Gross capital expenditure for the period to June 2007 will be approximately R630 million.

Cash flow

Cash retained from operating activities increased by R834 million or 76% to R1,1 billion. The reduction in working capital of R379 million, compared to an increase in working capital of R73 million last year, was due primarily to a reduction in both accounts receivable and inventories.

Cash flow earnings per share of R3,99 cents increased by 135% in comparison with R1,66 cents at June 2005 (based on the same number of shares in issue).

Shareowners' analysis

Reflecting buoyant equity markets and improved conditions in our industry, the Aveng share was actively traded during the review period. Over 315 million shares traded, representing a value traded of R7,1 billion, at an average price of R18,97 per share. Shares traded as a percentage of market capitalisation increased to 83,9% from 63,6% which can be attributed to participation in the corporate bond and the increased international exposure the share offers.

From an opening price of R12,35 at 1 July 2005, the Aveng share price closed the review period at R21,45. Offshore shareowners now account for 33% of the shareowner base.

Future priorities

Aveng's balance sheet is healthy. The debt-to-equity ratio is below target and the operating margin nearing target. The company will continue to optimise operational efficiencies where possible and maximise the use of assets, thereby continuing to deliver sustainable value to shareowners.

Dennis Gammie
Director: finance

Risk

The management of risk is critically important to the ongoing success of the group and is an inherent part of doing business.

The risk profile of any project or manufacturing process is critical and full consideration is given at all levels to the mitigation, control transfer and pricing of risk. Following this analysis consideration is given to each project or process to ensure that the risk reward ratio is appropriate and that the returns expected are commensurate with the risk assumed.

The board ensures that the appropriate risk tolerance levels are set and communicated to line management. These risk tolerance levels take cognisance of both the impact of the relative size of and the individual risk evaluation for the project to ensure that an even handed approach is followed in the analysis of risk to the group. These processes are integrated into the day-to-day activities and conformance with these requirements is regularly monitored.

The Aveng risk management process provides for both a top down and bottom-up approach. The top down focus provides the overall strategic framework and direction and defines the business imperatives. In parallel, a bottom up project analysis is undertaken on a project-by-project basis. This evaluates the project compliance to the strategic focus of the group and the relevant operating group or business unit. Once this hurdle has been successfully passed a full analysis of all the inherent risk is undertaken. The risks to which the group could be exposed are continually monitored to evaluate new and emerging risks and to ensure that future actions can be reviewed and focused appropriately on an ongoing basis.

Risks are categorised into those within the group's control and external factors outside its control. The latter includes risks such as country, exchange rate and commodity price risks. Aveng generally attempts to mitigate this category of risk by maintaining a strategic balance between business sectors, markets, currencies, countries and products.

In considering risks within the group's control, the board seeks to identify risk areas that could potentially have major negative impacts. It considers the nature and extent of these risks, their likelihood of occurrence, and the group's ability to adequately mitigate their impact at reasonable cost. The process is then further developed using a more detailed and sector-specific focus.

“The management of risk is critically important to the ongoing success of the group.”

The processes utilise risk matrix or mapping techniques generally based on the Turnbull recommendations. The broad risk areas covered include country risk, legal and regulatory compliance, human resources and industrial relations, safety, health and the environment, economic cycle, currency and payment, contracting, manufacturing, weather and commodity prices. Risks are evaluated for each of these broad areas, a detailed analysis of their impacts and effects undertaken and where possible they are mitigated, or the financial implications quantified. The probability of the event occurring and its potential impact dictate the mitigation measures required to ensure that the resultant risk falls within the group’s risk tolerance levels and the appropriate risk reward ratio for the project determined.
These risks are continuously monitored and mitigation and control measures reviewed and updated. The monitoring process includes regular feedback from contracting and manufacturing operations to ensure that processes take cognisance of lessons learned.

This systematic and disciplined approach to risk management ensures that all risks are regularly re-evaluated, actioned and monitored while providing a focus on internal systems, controls and risk management practices. This enables process or other system breakdowns to be timeously identified and corrected. In addition, new risk management trends and current best practice approaches are reviewed to continuously improve the group’s risk management processes.

The audit and risk committee submits a regular risk report to the Aveng board.

Project risk

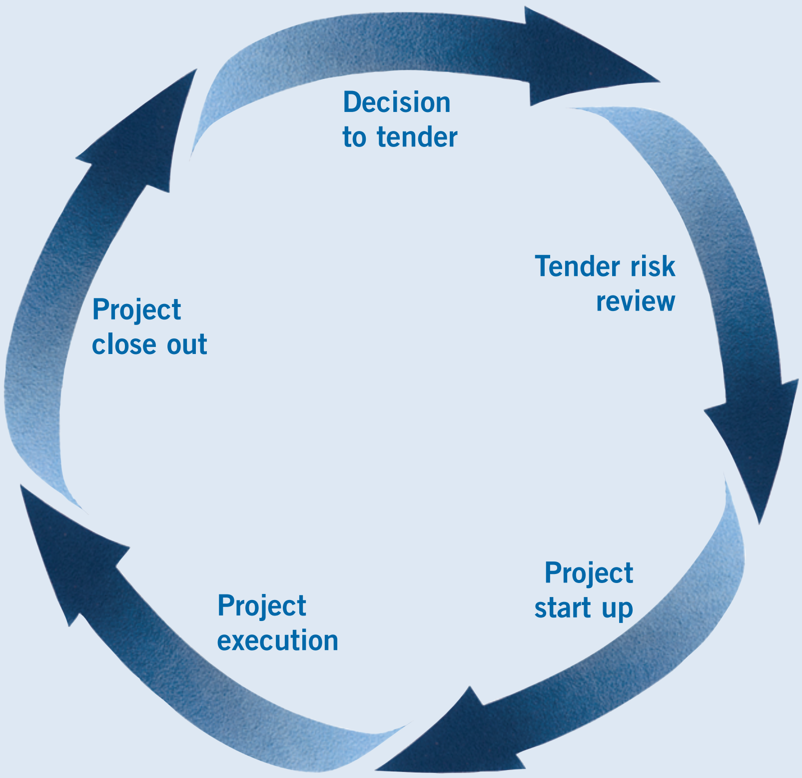
Over the past decade, the construction risk profile has changed dramatically, with many large customers successfully passing significant additional risk onto the contractor with no commensurate increase in return.

Internationally, the industry is responding through comprehensive analysis, as well as mitigation and control of project risk to ensure that the overall project risk is within acceptable tolerance levels. In general, the major risks facing Aveng fall into one or more of the following categories:

- Customers, funding and project viability
- Project type and scope
- Contract type and conditions
- Contract location
- Market
- Regulatory issues
- Human resources
- Safety health and environment
- Design and Technology requirements.

The risks associated with projects are potentially the biggest risks faced by the group. Accordingly the risk associated with these projects is evaluated in detail and the appropriate control measures instituted at all levels.

The process associated with project risk can be broken down into five key areas, each with its own unique challenges and focus. These are:



The **decision to tender** process includes an evaluation of strategic fit of the project to the strategic focus, a macro risk analysis on 10 broad parameters, and a project size impact analysis. The process is simple but robust and also clearly defines the authority levels for each project that has made it through the initial screening process. These authority levels take cognisance of the project risk profile, the project size impact analysis and the actual project value.

The **tender risk review** phase focuses on the evaluation and definition of all risks and their possible impact on the project to be undertaken in a structured but open manner. The phase includes the analysis of appropriate mitigation measures required on the project to ensure that the risks taken are acceptable, satisfactory assessments are made of the financial implications of the residual risk and that the risk reward ratio is appropriate.

The **project start up** phase focuses on the handover of the project from the tender to the project team, the re-evaluation of the risks associated with the project and the development of suitable KPIs used to monitor and control the key risks.

“The risks to which the group could be exposed are continually monitored to evaluate new and emerging risks.”

The **project execution** phase focuses on the control and mitigation of the known risks of the project through the risk KPIs. It includes a careful analysis of new and emerging risks and the impact of change on the project, for both the direct and secondary impact of change on the project on both schedule and cost. This process incorporates a feedback loop with the customer in an attempt to minimise the impact of new or emerging risks and change on both the contractor and customer.

The **project close out** phase provides an analysis and understanding of all risks that had an impact on the project, the effectiveness of controls and mitigation measures employed. Any new risks and relevant data associated with the project are then added to the data base for future use.

The decision to tender as well as tender approval authority levels are specified in the Aveng limits of authority policy. The decision to tender is taken at the defined authority level, based on the project's size, its complexity and degree of fit with existing group experience and technical capability. Smaller and less complex projects are reviewed either at Business Unit or Operating Group level by their Exco. Large and complex or high risk projects are considered by the Aveng tender risk committee comprised of appropriately experienced executive and non-executive directors, with senior group executives and outside assistance called on as required.

Major risks

The major risks facing the group are detailed below. Some are common to overall group activities while others are specific to one or more sectors of the business.

Economic cycle

The group is largely dependent on the development cycle of southern Africa, Australasia and the Pacific Rim. The sector and geographical diversity of Aveng's construction-related interests serve to reduce the impact of local economic cycles.

Exchange rate

The construction operations generate a proportion of their revenue in various foreign currencies, principally in Euro, US and Australian dollars. This results in vulnerability to exchange rate movements on translation, impacting on plant and material costs incurred in different currencies, particularly where these costs and their timing could not be matched to revenue streams. A focus on quoting in a manner that matches costs to revenue streams, forward cover and localisation if appropriate, serve to reduce the exchange rate impact.

Commodity price

Although commodity price movements do not generally directly affect the group, the impact of these price movements is apparent in industrial and mining project flow and material input costs. For South African customers, the Rand price of the commodity they sell will influence their investment decisions. This has resulted in projects being delayed by certain key mining and industrial customers and has a material secondary impact of exchange rate movements on Aveng's earnings. The impact of variations in important material input costs is mitigated by the incorporation of specific commercial terms into contracts for price-volatile commodities, and is particularly important if there is a single or limited number of suppliers.

Market

Although the group operates in a geographically diverse market, the impact of local culture, security, legal constraints, regulatory issues, logistics, communications, access and other risks can have a major impact on the success of a project. The potential impact of these risks is evaluated by a thorough country-risk analysis supplemented by those undertaken by accredited international banks or agencies. In the event that the risk exceeds our tolerance levels, no work will be considered in that market.

Project Funding and Viability

Funding agencies and other customers often finance projects with limited financial facilities. This impacts the availability of funding, timing of payments, and the availability of additional finance in the event of changes to the project through circumstances outside the group's and often the client's control. Furthermore, in certain instances, projects are sensitive to commodity prices, expressed in either US dollars, or the local currency. These projects may cease to be viable in the event of adverse movements in either the commodity price or exchange rates. This is an important secondary impact of exchange rate movement on Aveng's earnings.

Credit risk

Aveng is exposed to credit risk both in the contracting and manufacturing supply sectors through contracts, third parties, insurance and other areas where a borrower or counterparty might fail to honour its contractual obligations. The impact of this risk is reduced by the risk-based rating of customers, restricting large exposures and limiting credit payment periods.

Human resources

Aveng is a people-intensive business and as such human capital is essential for its long-term success. Accordingly, the group focuses on talent development at all levels. The key senior strategic talent development is co-ordinated by Aveng on a group-wide basis. The group upholds the principle of employment equity and supports the continuous development of its human capital. This is undertaken through formal technical and management training, on-the-job

"The impact of these risks is generally greater in developing markets that are subject to poor governance and have non-diversified economies."

skills development and bursaries, augmented by appropriate mentorship training, with a specific focus on disadvantaged groups in an attempt to promote industry transformation. Despite these interventions, there is a serious shortage of suitably trained and experienced personnel of all population and gender groups. This is not only a local phenomenon, and is apparent in our industry worldwide. In addition, a relatively inflexible labour market, low productivity and the serious impact of the HIV/Aids pandemic create additional areas of risk.

Global risks

The world economy is exposed to global risks and these can impact the global economic cycle in adverse and unpredictable ways. Global risks include terrorism, regional instabilities, oil price shocks, potential pandemics and climate change. Generally these risks are inextricably linked and one cannot consider these risks in isolation. The impact of these risks is generally greater in developing markets that are subject to poor governance and have non-diversified economies. Aveng takes particular cognisance of the impact of these risks in the individual markets in which it operates and evaluates the potential downside scenarios and then evaluates ways to mitigate these risks. Work will not be considered in markets where they cannot be reasonably mitigated.

The board of Aveng Limited has adopted a board charter setting out the role of the directors and their responsibilities to the company and its shareowners. Newly-appointed directors subscribe to the provisions of the charter and commit themselves to act accordingly.

Role of the board

The charter confirms that the role of the board is to effectively represent and promote the interests of the company with a view to adding sustainable value for shareowners. The board ensures that company goals are clearly defined, that management has put strategies in place to achieve them and that appropriate steps are taken to monitor progress. Furthermore, the board formulates policy, appoints and monitors the performance of the chief executive, oversees board succession planning and assists the chief executive in selecting and remunerating senior group executives.

The board evaluates developments in the external environment and provides counsel to the chief executive and executive directors. The board ensures compliance with all relevant legislation, both in the spirit and the letter of the law, as well as ensuring that the company adheres to the high standards of ethics and corporate behaviour set out in its code of business conduct. It ensures that its actions demonstrate unwavering commitment to the group's core values of personal integrity, quality of work and entrepreneurial conduct.

A further dimension to the role of the board is its relationship with shareowners. To that end the board reviews the shareowner register on a regular basis and attempts to familiarise itself with issues of concern to shareowners that may be raised from time to time by directors, management or the company's investor relations consultants.

To effectively fulfil its role, the board has adopted a set of procedures that govern and regulate its activities. Of particular importance is the preparation for and attendance of board meetings, open and constructive discussion and a recognition that differences of opinion can lead to better decision making.

Board meetings take place quarterly and, while the final agenda is set by the board, via its chairman, a number of standing issues are covered at each meeting. These include: a business overview from

"In addition to its statutory duties, the board annually reviews the group's goals, its overall strategy for achieving these goals and approves the annual budget and business plan."

the chief executive; a report from the financial director; operational reports from the company's subsidiaries, operating groups and associate groups; a review of major capital expenditure; acquisition proposals; strategic issues; and potential opportunities for the group.

In addition to its statutory duties, the board annually reviews the group's goals, its overall strategy for achieving these goals and approves the annual budget and business plan. The board also reviews and evaluates its own performance and that of its standing committees as well as monitoring the performance and remuneration of the chief executive and other executive directors.

To aid them in their tasks, directors have full access to company information and to the chief executive and other executive directors. With the prior agreement of the chairman, directors are entitled to obtain independent professional advice relating to the affairs of the company or to their other responsibilities as directors. The cost of the advice is paid for by the company.

The board charter recognises that the chairman is responsible for board integrity and the effectiveness of its governance processes. He is also tasked with maintaining a regular dialogue with the chief executive on operational matters. The chairman acts as a facilitator at board meetings, ensures that no one director dominates the debate and that discussions result in logical and understandable outcomes.

Board committees

The board has constituted five standing committees to facilitate efficient decision making and to assist the board in its functions. The committees, in alphabetical order, are the audit and risk committee, the executive committee, the nomination committee, the remuneration committee and the tender risk evaluation committee. The membership of these committees is set out in the corporate governance section of this annual report.

Other ad-hoc committees may be formed for specific purposes, and are disbanded when their tasks have been accomplished.

The audit and risk committee provides a forum for effective communication between the board and the external and internal auditors. The committee reviews the annual and half-yearly financial statements prior to submitting them to the board for approval, the management information systems and procedures for internal control, and the effectiveness of the external and internal audit functions. It seeks to understand the significant risks facing the company and ensures that the appropriate risk management processes are implemented.

The executive committee is made up of the financial director and the managing directors of major operating groups, under the chairmanship of the chief executive. Operational performance is reviewed, matters of strategic importance are discussed and decisions that affect the group as a whole are made. Particular emphasis is given to delivering on commitments made in the group's business plan, implementing board policy and giving effect to its decisions.

The nomination committee ensures that the board includes non-executive directors with the appropriate balance of skills, experience and other attributes required by the company. It considers the need for new directors, searches for candidates and recommends potential appointees to the board.

The remuneration committee annually reviews the fees paid to non-executive directors and makes recommendations to the board for approval by shareowners. Salary packages for executive directors including basic salary, fringe benefits, share schemes, performance-related bonuses and entitlements upon retirement and termination are reviewed annually with due regard for performance and other relevant factors including market relativity. The committee notes the details of remuneration packages of senior executives and recommends policy for operating group remuneration.

The tender risk evaluation committee reviews the risk aspects of projects that, either as a result of their size or complexity, may present significant potential risk to the group. The committee consists of executive and non-executive directors together with senior group executives and outside advisers as required, meeting under the chairmanship of the group chief executive.

Board procedures

The board strives to achieve the balance of skills and experience necessary to guide the company and its subsidiaries, to present a public face that engenders confidence in the company amongst present and potential investors, and to reflect the diversity of its stakeholders. The board therefore needs to be large enough to provide the necessary range of knowledge, experience and racial/gender diversity, without jeopardising its ability to achieve common purpose, full participation and camaraderie. Historically, the number of directors ranges between 10 and 15, the majority of whom are independent non-executives.

Subject to any limitations imposed by shareowners, non-executive directors each hold office for between one and three terms of three years.

"The board strives to achieve the balance of skills and experience necessary to guide the company and its subsidiaries."

Non-executive directors undergo an induction programme aimed at broadening their understanding of the company, the business, the environment and the markets in which the company and its subsidiaries operate. Directors are required to keep themselves informed of changes in the business, trends in the company's operating environment and must be aware of the broader economic, political, social and legal issues that may impact on the group.

Each year the board critically evaluates its performance, together with its processes and procedures to ensure that they remain relevant, are not unduly complex and that they continue to assist the board in fulfilling its role effectively.

The chief executive

A further important element of the board's responsibility is its relationship with the chief executive. The chief executive is the link between the company's management, the governance functions and the board. All board authority conferred on management is delegated through the chief executive so that the authority and accountability of management is considered to be the authority and accountability of the chief executive.

The board works with the chief executive to set company goals and the chief executive is accountable to the board for the achievement of these goals without exceeding the limits of authority delegated to him. The chief executive is expected to enforce the group's code of business conduct and at all times to act in the best interests of Aveng and its shareowners, upholding the highest standards of integrity, corporate governance and fairness in the group's dealings with all its stakeholders.

Aveng believes corporate governance is central to its success. The group is committed to maintaining high standards of governance, ensuring that the group is being managed ethically within prudently determined risk parameters. The group accepts the underlying principles and firm recommendations set out in the King Report on Corporate Governance for South Africa – 2002 (King II) and complies with the additional corporate governance requirements of the JSE Limited. Where Aveng holds a contrary view to those of the King II recommendations, or that of the JSE, this is noted and reasons given.

Aveng strives to implement good governance in practical ways by not allowing form to replace substance. This commitment is demonstrated by the ongoing refinement of structures to reflect current best practice in corporate governance.

Aveng has always believed that high standards of corporate governance are fundamental to achieving its long-term strategic goals and to meeting the needs of all stakeholders.

Board of directors

The board is the focal point of Aveng's corporate governance. It determines the purpose, values and strategic direction of the group. It sets strategic objectives, key policies, risk parameters and financial performance criteria. It exercises leadership, enterprise and sound judgement in its quest for continued stakeholder prosperity.

The board delegates the detailed planning and implementation of policy to management, formally reviewing progress on a quarterly basis.

The protection of shareowners' rights and responsibility to other stakeholders within the constraints of the regulatory environment is of paramount importance in all board decisions.

Aveng has a unitary board structure comprising 11 directors. Seven are independent non-executive and four are executive directors. The chairman of the group is an independent non-executive director and has no executive functions. Their details appear on pages 44 and 45 and their attendance at meetings is listed at the end of this section.

Non-executive directors are required to limit the number of outside directorships to four and executive directors to one, excluding directorships of philanthropic and industry-related associations.

Due to their calibre, independence, experience and majority on the board, the views of non-executive directors carry significant weight in the board's deliberations and resolutions.

The strong independent composition of the board ensures that no one individual has unfettered powers of decision and authority. There are no shadow directors.

Non-executive directors are not awarded share options or benefits

“Aveng believes corporate governance is central to its success.”

other than director’s fees. There are no service contracts with either executive or non-executive directors. An executive director is required to retire from the board at age 60, and a non-executive director at the age of 65.

In accordance with the company’s articles of association, all directors are subject to retirement by rotation and re-election by the shareowners at least once every three years. Reappointment of non-executive directors is not automatic. The board approves the appointment of non-executive directors, based on recommendations by the nomination committee and executive directors on the recommendation of the chief executive and remuneration committee.

New directors are inducted by the chairman, chief executive and the company secretary. The chairman deals with the workings of the board, the chief executive with the business, and the company secretary with legal and governance issues.

The board meets formally at least once a quarter, or more frequently if necessary, to consider and review matters specifically reserved for its decision. These include financial and operational results, issues of strategic direction, major acquisitions and disposals, approval of major capital expenditure, large construction tenders as well as any other material matters.

The timely dissemination of detailed board papers which include financial, safety, health, environmental, operational, risk and other supporting documentation ensures that the directors are fully informed on those matters scheduled for discussion and decision at each board meeting. Directors may request the chairman to place a matter on the board agenda.

Directors have unrestricted access to all company information, records, documents and property. With the prior agreement of the chairman they are entitled to obtain independent legal advice on group-related matters at the group’s expense.

An annual assessment of the performance, attendance, preparedness, participation and candour, of the board as a whole, is conducted by the chairman for review by the nomination committee. The performance of the chief executive is reviewed by the chairman in consultation with the remuneration committee. The performance of other executive directors is assessed by the chief executive in consultation with the chairman and remuneration committee.

Board committees have been established, to assist the board in its deliberations. The following committees report to the board and are reported on individually in this section of the annual report:
Audit and risk committee
Executive committee
Nomination committee
Remuneration committee
Tender risk evaluation committee

Each of these committees has its own mandate and, other than the tender and risk evaluation committee and the executive committee, are made up exclusively of non-executive directors, all of whom are independent. The chairman of each of these committees reports verbally to the board and minutes of the committee meetings are circulated or made available to directors. These committees in no way diminish the responsibility of the board.

The performance of each board committee is formally assessed by members of the board annually in November, with committee members for the next 12 months being elected at the group's December board meeting. Continuity and new thinking on these committees are promoted through this process.

Chairman, chief executive and company secretary

The roles of chairman and chief executive are separate. The board is led by the chairman, Richard Savage, who is an independent non-executive director. The executive management of the group is the responsibility of the chief executive, Carl Grim.

The chairman is re-elected annually in June for a period of one year.

The chairman serves as a non-executive director on the group's principal subsidiary companies boards. Aveng believes that this level of involvement is necessary to acquire and maintain the level of understanding of group operations required to effectively chair the board. This greater involvement is information gathering in nature and does not in any way constitute the exercise of executive powers.

All directors have access to the advice and services of the company secretary, John Baxter. In addition to his normal responsibilities, he also keeps the board advised of any relevant changes in the JSE Limited Listings Requirements, governance issues, changes in company law legislation and any other relevant regulations.

Attendance register

Scheduled board meetings

		Independent	01/07/2005	09/09/2005	09/12/2005	03/03/2006	30/06/2006
RB Savage	Non-executive: chairman	•	✓	✓	✓	✓	✓
C Grim	Chief executive		✓	✓	✓	✓	✓
AWB Band	Non-executive: Appointed 01/07/06	•	n/a	n/a	n/a	n/a	n/a
BPJ Fourie	Executive		✓		✓	✓	✓
DR Gammie	Executive		✓	✓	✓	✓	✓
L Gcabashe Ms.	Non-executive	•	✓	✓	✓	✓	✓
JR Hersov	Non-executive	•	✓	✓	✓	✓	✓
VZ Mntambo	Non-executive	•	✓	✓		✓	✓
DG Robinson	Executive		✓			✓	✓
MJD Ruck	Non-executive: Appointed 04/08/06	•	n/a	n/a	n/a	n/a	n/a
BP Steele	Non-executive	•	✓	✓	✓	✓	✓
PL Erasmus	Non-executive: Retired 28/10/05	•	✓	✓	n/a	n/a	n/a
HDK Jones	Executive: Retired 31/03/06		✓	✓	✓	✓	n/a
WE Lucas-Bull Ms.	Non-executive: Resigned 31/03/06	•	✓	✓	✓		n/a
KW Meissner-Roloff	Non-executive: Resigned 20/07/06		✓	✓	✓		

✓ attended

Audit and risk committee

Members: Brian Steele (chairman), Angus Band, James Hersov, Richard Savage.

Attendance register

Audit and risk committee

		Independent	08/09/2005	08/12/2005	02/03/2006	29/06/2006
BP Steele	Non-executive: chairman	•	✓	✓	✓	✓
AWB Band	Non-executive: Appointed 01/07/06	•	n/a	n/a	n/a	n/a
JR Hersov	Non-executive	•	✓	✓	✓	✓
RB Savage	Non-executive	•	✓	✓	✓	✓
WE Lucas-Bull Ms.	Non-executive: Resigned 31/03/06	•		✓		n/a

✓ attended

The committee's primary responsibility is to provide the board with additional assurance regarding the integrity and effectiveness of the group's risk management framework and related internal controls, reporting and compliance systems applied within the group and the operational implementation of corporate governance.

The committee reviews internal and external audit processes, accounting policies and significant issues raised in the audit committees of the group and its principal subsidiaries. It reviews and approves the internal audit plan.

The audit and risk committee charter has been approved by the board and clearly sets out the terms of reference and powers delegated to this committee. This includes reviewing the annual financial statements, the internal control procedures, accounting policies, compliance and regulatory matters as well as advising the board on the application of accounting standards in its published financial information.

This committee meets four times a year. The minutes of these meetings are included in the quarterly board papers.

Recommendations are made by the committee to the board on the annual appointment of the external auditor and advisers for non-audit services, taking into account appropriate independence issues.

Business risk areas have been formally identified and controls introduced to minimise potential loss to the group. In the discharge of their duties, committee members have access to all information, and documentation as well as to management for explanation if required.

During the past year the committee was chaired by Brian Steele, an independent non-executive director. He is a member of principal subsidiaries' audit committees to better familiarise himself with the operational details of the businesses. He also has direct access to both the internal and external auditors.

All members of this committee are independent non-executive directors. Contrary to the King II recommendations, the chairman of the board is a member of this committee as Aveng is of the opinion that the individual concerned is a valuable member of the committee and does not have an overbearing influence on committee members, all of whom are financially literate and very experienced in their fields.

The chief executive, the financial director and the external auditors are in attendance at each meeting. Other members of staff including internal audit staff attend as required. Executive attendees are not present during periodic discussions with the external auditors on executive openness and co-operation.

Internal audit

The directors are responsible for the group's system of internal control and the ongoing review of its effectiveness. This system of control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives. It can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The internal audit and risk review structure is decentralised. The independent appraisal function constantly examines and evaluates the appropriateness of the systems of internal control, risk management and governance.

The heads of the internal audit departments report day to day matters to the financial director of the principal subsidiary concerned. They also have direct access to the principal subsidiary's managing director as well as the chairman of the audit and risk committee. The managing director of the operation concerned is immediately notified of any significant findings. The head of internal audit attends the audit and risk committee meetings of each of the principal subsidiaries' and presents the report. Principal subsidiaries' internal audit reports are included in the Aveng audit and risk committee papers.

An important objective of internal audit is to assist management in the effective discharge of their responsibilities. The audit and risk committee acts as a consulting resource, attempting to add value to, and improve the organisation's operations. Audit plans, based on an assessment of risk, are presented in advance to the committee for approval.

Each assignment is followed by a detailed report to management, including recommendations on aspects requiring improvement.

Significant findings as defined by the terms of reference are reported to the appropriate audit committee. A formal review of internal controls is carried out at least once a quarter.

External audit

The external audit provides an independent assessment of systems, risk and financial controls. The external auditors regularly review the internal audit reports and meet formally with the internal audit team at least twice annually to ensure that their joint efforts are properly co-ordinated.

The external auditors express their independent opinion on the annual financial statements and perform a high-level review of the interim results.

The external auditors attend the audit and risk committees of Aveng and its principal subsidiaries each quarter. They are required to demonstrate a high level of ethical commitment and ensure that their professional independence is not impaired.

Risk

The systematic risk assessment process is at the foundation of the group's management philosophy. The process ensures that risks associated with opportunities are identified, evaluated and managed at the appropriate level within the organisation.

Macro-level risk management methodology is based on the Turnbull recommendations. Major categories of risk are identified, the group's exposure to each of these is quantified, the probability of occurrence determined and the possible impact assessed. Appropriate measures to mitigate or control major risks are then introduced.

Each category of risk is continually monitored and mitigation actions appropriately modified.

The board is regularly updated by the audit and risk committee on the status of the risk management and internal control systems, noting new risk issues and internal control breakdowns that may have occurred.

The risk review process starts with each operating division's executive committee and depending on the size and complexity of the risk involved, progresses up to the business unit, the operating group, the principal subsidiary and finally to the Aveng board for review. The decision to move the review process to a higher level is based on a clearly defined set of size and complexity criteria. For further details on the company's micro risk management processes, see pages 70 to 75.

Attendance register

Executive committee

		04/08/2005	07/09/2005	26/10/2005	07/12/2005	02/02/2006	02/03/2006	04/05/2006	29/06/2006
C Grim	Executive: chairman	✓	✓	✓	✓	✓	✓	✓	✓
NJ Bell	Member	✓	✓	✓	✓	✓	✓	✓	✓
BPJ Fourie	Executive director	✓			✓	✓	✓	✓	✓
DR Gammie	Executive director	✓	✓	✓	✓	✓	✓	✓	✓
JE du Rand	Member: Appointed 18/04/06	n/a	n/a	n/a	n/a	n/a	n/a	✓	✓
DJ Keet	Member	✓	✓	✓	✓	✓	✓	✓	✓
DG Robinson	Executive director	✓	✓	✓	✓	✓	✓	✓	✓
BW Wilmot	Member	✓	✓	✓		✓	✓	✓	✓
HDK Jones	Executive director: Retired 31/03/06	✓	✓	✓	✓	✓	✓	n/a	n/a

✓ attended

Executive committee

Members: Carl Grim (chairman), Nick Bell, Eddie du Rand, Ben Fourie, Dennis Gammie, Doug Keet, David Robinson, Brian Wilmot.

The executive committee is appointed by the board. Its purpose is to review group operations, discuss and make proposals to the board on matters of strategic importance, and to implement board decisions.

The committee generally meets twice a quarter and more often if circumstances demand.

Nomination committee

Members: Vincent Mntambo (chairman), Leah Gcabashe, Richard Savage.

The nomination committee is chaired by an independent non-executive director. The committee consists of three members, all being independent non-executive directors.

The King II report recommends that the chairman of the board chair this committee. It is Aveng's view that a candid discussion on board decisions and processes would probably be more effective where this committee is chaired by another senior non-executive director.

Terms of reference and the powers delegated to this committee have been approved by the board and include the important responsibility of reviewing the effectiveness of the board, and that of individual non-executive directors.

The committee considers the composition of board committees, retirements and the appointment of additional and replacement non-executive directors, making appropriate recommendations to the board. Potential non-executive directors are selected on the basis of industry knowledge, professional skills and experience.

The board chairman conducts annual appraisals of the performance of each of the non-executive directors and reviews these with the nomination committee. Members of the committee recuse themselves when they are being discussed. The nomination committee reviews the performance of the chairman of the board and in doing so reserves the right to consult with the chief executive. Where appropriate, individual directors may then be interviewed. The results of the review process are reported to the board.

The committee meets at least twice a year or more often as required.

Attendance register

Nomination committee

		Independent	01/07/2005	08/12/2005	03/03/2006
VZ Mntambo	Non-executive: chairman	•	✓	✓	✓
L Gcabashe Ms.	Non-executive: Appointed 01/08/05	•	n/a	✓	✓
RB Savage	Non-executive	•	✓	✓	✓
PL Erasmus	Non-executive: Retired 28/10/2005	•	✓	n/a	n/a
JR Hersov	Non-executive: Retired from committee 31/07/2005	•	✓	n/a	n/a

✓ attended

Remuneration committee

Members: Richard Savage (chairman), Angus Band, Vincent Mntambo.

The committee is chaired by the chairman of the board, an independent and non-executive director. The committee consists of

Attendance register

Remuneration committee

		Independent	01/07/2005	09/09/2005	09/12/2005	12/01/2006	30/06/2006
RB Savage	Non-executive: chairman	•	✓	✓	✓	✓	✓
VZ Mntambo	Non-executive	•	✓	✓	✓	✓	✓
AWB Band	Non-executive: Appointed 01/07/06	•	n/a	n/a	n/a	n/a	n/a
PL Erasmus	Non-executive: Retired 28/10/2005	•	✓	✓	n/a	n/a	n/a
WE Lucas-Bull Ms.	Non-executive: Resigned 31/03/2006	•	n/a	✓	✓		n/a

✓ attended

three members, all independent non-executive directors.

Clear terms of reference and powers have been approved by the board.

The committee is responsible for the assessment and approval of the broad remuneration strategy for the group, covering both short and long-term incentive pay structures.

The remuneration committee's objective is to ensure that a high calibre of executive and senior management is attracted, retained and motivated and that they are rewarded appropriately for their individual performance and contribution to the success of the group. Reward structures and practices are reviewed annually and are compared against external market and country benchmarks.

The performance of Aveng executive directors is reviewed by the chief executive who discusses his assessment of their performance with the chairman of the board and the remuneration committee. The chief executive's performance is reviewed by the chairman of the board in consultation with the remuneration committee. Chief executive succession planning is discussed by the committee and reported to the board when appropriate. The chief executive regularly updates the committee and seeks its input on executive director and senior executive succession planning.

The committee recommends non-executive compensation to the board for approval by shareowners and executive remuneration to the board. The remuneration of the directors, both executive and non-executive, for the period under review is set out on pages 202 to 206. Further details on remuneration policy are set out on page 142.

The committee meets at least three times per annum or more often if necessary.

Tender risk evaluation committee

Members: Carl Grim (chairman), Angus Band, Eddie du Rand, Dennis Gammie, Hylton Macdonald, David Robinson, Richard Savage, Brian Steele.

The tender risk evaluation committee reviews the risk aspects of tenders that present significant potential risks to the group, either as a result of their size or complexity.

Attendance register

Tender risk evaluation committee

		Independent	01/07/2005	05/08/2005	24/08/2005	13/10/2005	08/12/2005	03/03/2006	24/05/2006	07/06/2006	30/06/2006
C Grim	Executive: chairman		✓	✓	✓	✓	✓	✓	✓	✓	✓
AWB Band	Non-executive director: Appointed 04/08/06	•	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
PF Crowley	Member		✓	✓	✓	✓	✓	✓	✓	✓	✓
JE du Rand	Member: Appointed 18/04/06		n/a	n/a	n/a	n/a	n/a	n/a	✓	✓	✓
DR Gammie	Executive director		✓	✓	✓		✓	✓		✓	
HKJ Macdonald	Member		✓		✓	✓		✓	✓	✓	✓
DG Robinson	Executive director			✓	✓	✓	✓		✓		✓
RB Savage	Non-executive director	•	✓	✓	✓		✓	✓			✓
BP Steele	Non-executive director	•	✓	✓	✓	✓	✓	✓		✓	✓
HDK Jones	Executive director: Retired 31/03/06		✓	✓	✓	✓	✓	✓	n/a	n/a	n/a

✓ attended

The committee includes three executive and three non-executive directors, the group risk manager as well as external experts by invitation. It meets under the chairmanship of the group's chief executive at least quarterly or as often as is required.

Integrity

Organisational and personal integrity is Aveng's core value. The group's code of business conduct is set out on page 14 and is formally committed to annually by the directors of the group, its principal subsidiaries, operating groups and business units. The code of conduct is made known to employees through various means and the internal audit function monitors compliance in a systematic manner. Behaviour that undermines the letter and spirit of the code is reported and dealt with as a matter of urgency. Where required, harsh action is taken to ensure that the reputation of the group is upheld.

Aveng carefully reviews its dealings with other individuals and companies to ascertain their level of commitment to personal and organisational integrity.

Share dealing by directors and officers

The group has imposed closed periods prior to the publication of its interim and year end financial results. The closed periods are from 1 January and 1 June until publication of the half and full year results respectively.

During these periods, the directors and designated senior employees of the group may not deal in the shares or in any other instrument linked to the shares of the company.

In addition, directors and senior employees cannot trade in the group's shares during any period where they have access to unpublished price-sensitive information. To ensure effective compliance, it is a requirement that no trade in Aveng securities may take place outside of the closed periods without the prior written approval from the chairman, for non-executive directors and the chief executive for executive directors and officers of the group.

Directors and senior designated employees are required to instruct their portfolio or investment managers not to trade in the securities of Aveng without their written consent. They are required to advise the company secretary immediately after the trade has taken place who will then report the transaction to the JSE Limited through the Stock Exchange News Service (SENS) within one working day.

Identical rules and restraints apply where the shares in Aveng are held by the immediate family of the director or senior designated employee or by a trust of which the director/senior designated employee or his family is a beneficiary.

Investor and stakeholder relations

Aveng is committed to open and timeous communication with all its stakeholders. It is committed to transparency but will not voluntarily disclose information to any stakeholder that the directors believe would be detrimental to the business.

The company communicates as often as practicable with all stakeholders through the numerous mediums available. Direct personal discussions with the chief executive or his designate is encouraged and welcomed.

The company goes beyond minimum requirements in its public announcements, striving to keep stakeholders fully informed. In so doing, it will ensure that the JSE Limited regulations on disclosure are complied with.

It is the practice of the company to meet regularly with institutional shareowners and investment analysts and to make presentations to both local and international investors bi-annually after the release of the company's interim and final results.

Shareowners and their appointed representatives are encouraged to attend the company's annual general meeting, to vote on the resolutions placed before the meeting and to conduct relevant discussions with the company's directors.

Information found elsewhere in this report

GRI report content index

In accordance with the reporting requirements of the Global Reporting Initiative (GRI), the index on page 91 contains the core key economic, social and environmental performance indicators for the 2002 GRI Guidelines alongside a page number and content descriptor to direct readers to the section within this annual report where Aveng has reviewed these key performance indicators.

Where an issue is not discussed or is not relevant to Aveng, this is stipulated below. Although some additional indicators are assessed by Aveng, they are not included in this index.

CSI: Investing in communities for the future.

GRI Indicator	Core performance indicators	Page in this report	Description of content
Economic performance indicators			
EC1 – 2	Customers	100 102	Value added statement; geographic segments and contribution to revenue
EC3 – 4	Suppliers	100 110	Value added statement; procurement
EC5	Employees	100 142	Value added statement; direct value added to South Africa; remuneration policy and benefits
EC6 – 7	Providers of capital	100	Value added statement
EC8 – 10	Public sector	100 154	Value added statement; direct value added to South Africa; social investment
Environmental performance indicators			
EN1 – 2	Materials	120	Materials
EN3 – 4	Energy	121	Energy
EN5	Water	123	Water
EN6 – 7	Biodiversity	125	Biodiversity
EN8 – 13	Emissions, effluents and wastes	128	Emissions; effluents; waste
EN14 – 15	Products and services	132	Product responsibility
EN16	Compliance	119	Legal compliance
Social performance indicators			
LA1 – 2	Employment	139 142	Human capital; remuneration policy and benefits
LA3 – 4	Labour/management relations	145	Industrial relations
LA5 – 8	Health and safety	146 150	Occupational health and safety HIV/Aids
LA9	Training and education	143	Skills development
LA10 – 11	Diversity and opportunity	103 140	Broad-based black economic empowerment; employment equity
HR1 – 7	Human rights	14 136 110 140 145	Ethical conduct Human rights Procurement Employment equity Industrial relations
SO1 – 3	Society	14 136 148 154	Ethical conduct Human rights Public health and safety Corporate social investment
PR1 – 3	Product responsibility	148	Public health and safety

Sustainable development

Commitment

Aveng is committed to playing a constructive role in contributing to and investing in South Africa's prosperity, growth and development. The group believes that sustainable development is a sound business imperative that will enable it to sustain and grow its business. By addressing the country's transformation challenges, behaving responsibly and respectfully towards its present and future stakeholders, embracing social investment and respecting the environment, the group enhances its own long-term commercial success as well as the prosperity of the countries in which it operates. As the country prospers, construction and related industries will flourish, which will in turn strengthen the group's ability to contribute to the enhancement of society.

To this end, Aveng voluntarily incorporates economic, social and environmental concerns in its business practices and decision making to enable it to make a real difference at every level and in every country in which it operates. The Aveng group sustainability policy incorporates, amongst others, the following principles:

- Aveng is committed to implementing corporate social responsibility strategies throughout its operations worldwide in line with internationally recognised sustainability guidelines and principles. Aveng recognises that its long-term prosperity and the sustainability of its operations rely on a climate of economic and social prosperity, as well as the integrity of the natural environment.
- Aveng will strive to be a leading corporate citizen, working with employees, their families, local communities and society at large to improve the overall quality of life and to achieve sustainable economic development at all levels. The group recognises the universal right of present and future generations to a natural environment that is not harmful to human wellbeing, and endeavours to minimise the environmental impacts of its operations.
- Aveng acknowledges its accountability to its shareowners and its responsibility to its wider stakeholder base, including employees, clients, business partners, contractors, suppliers, communities affected by its operations, Government and regulatory bodies. Aveng seeks to build an atmosphere of openness and trust through regular, timeous and courteous stakeholder engagement. The group will communicate with stakeholders in a transparent and realistic manner to the extent that this is not detrimental to the group. All stakeholder engagement will be balanced with the group's overall responsibility to the sustainability of its business, employees and investors. The group is committed to closely working with communities in and around its operations.

"In 2004 Aveng was one of the founding constituents of the SRI Index and has maintained its membership since then."

Reporting framework

The King Code, the Global Reporting Initiative (GRI), the standards set by the JSE Securities Exchange's Socially Responsible Investment (SRI) Index and the group's own code of business conduct are the cornerstones of Aveng's approach to sustainable development. The group's code of business conduct can be found on page 14 of this report.

Aveng endorses the King Code's recommendations for integrated sustainability reporting and has adopted its triple bottom line approach to reporting to stakeholders, which clearly demarcates non-financial performance reporting into economic, social and environmental impacts.

Given the challenges of differing regulations, laws and standards in its operational areas worldwide the group is also guided by the internationally-recognised sustainability requirements and reporting standards contained in the GRI as a tool in managing sustainability. An index of GRI indicators is included on page 91 of this report, which contains references to sections of this report where the group's performance in accordance with core indicators is discussed, or alternatively denotes which indicators are not currently assessed by the group. For further information on the GRI visit www.globalreporting.com.

In 2004 Aveng was one of the founding constituents of the SRI Index and has maintained its membership since then, notwithstanding the significantly more challenging standards imposed by the JSE for qualification on the Index year-on-year. The Index serves as an independent measure of the group's commitment to sustainable development and non-financial performance as well as the socio-economic transformation of South African society. Aveng uses the SRI Index's qualifying criteria and questionnaires as a yardstick for its performance and will do its utmost to improve its own standards to remain listed on the Index.

During the previous financial year, the Department of Trade and Industry published draft codes of good practice (the dti code) to accompany the Broad Based Black Economic Empowerment Act No. 53 of 2003. The dti codes use a balanced scorecard approach to measure South African business against a wide range of criteria for broad-based empowerment. In addition, the Construction Charter was finalised during the year under review. Aveng will strive to align the group's broad based black economic empowerment (BBBEE) credentials to the Construction Charter, which is aligned with the the dti codes and scorecard.

Throughout this report, any reference to black people includes all black, coloured and Indian people.

Scope of this report

The group is a multi-faceted, globally competitive construction and related industries group operating globally in 29 countries with a focus on selected areas of the developing world. Aveng's seven operating groups and their subsidiaries and associates are involved in the construction, steel and allied and cement industries. This sustainability report covers all the group's operations including all wholly owned subsidiaries, businesses in which it has a significant interest, managed and controlled entities as well as elements of its supply chain. The interests of the Aveng businesses encompass diverse disciplines including manufacturing and selling, engineering, building, mechanics, roads and earthworks, opencast mining, property development, steel and automotive supplies and quarrying. Accordingly, impacts on the communities and environments in which the Aveng businesses operate are varied, making it impossible to implement a single standard for social responsibility compliance across all business areas.

Nevertheless, Aveng encourages high sustainability standards within all the group's operations and elsewhere as appropriate – such as ISO and NOSA management systems for all aspects of safety, health, environment and quality (SHEQ). To date, the group's subsidiaries, and even the different business units within each subsidiary, have not all obtained the same levels of compliance, monitoring, managing and reporting for their economic, environmental and social impacts. However, Aveng encourages its operations to obtain ISO 14 001 certification and to comply with all relevant environmental legislation, regulations, construction industry codes of practice and other best practice environmental standards.

St Tropez project, Cape Town.

Processed coils ready for despatch.

"The group makes a concerted effort to communicate in a clear, open, timely and realistic manner with its stakeholders and is committed to transparency."

The majority of projects undertaken by the group's operations are not controlled by the business itself or Aveng, but are on a contract basis for a client. In these cases the client assesses the impacts of the project and implements management and monitoring criteria. The business is guided by the policies and requirements as set out by the client. However, Aveng would not knowingly enter into any agreement to supply goods or services to a project that may have detrimental impacts on communities or the environment.

Many projects awarded to group operations, particularly Grinaker-LTA, include aspects of benefit to society and the environment, while some projects purely require the group to find solutions to potential environmental hazards, infrastructure requirements or community needs.

Another challenge is the global spread of the Aveng businesses, which mainly operate within the developing world. Each country has its own laws and regulations governing issues such as the environment, human rights, labour rights, health and safety, which must be complied with taking into account any additional standards required by the client. In addition, resource and energy utilisation, waste generation, air emissions and the nature of environmental and social impacts constantly vary between the types of projects being developed and on circumstances at the time of the assessment.

Despite these hurdles, being a good corporate citizen is an intrinsic part of the way that Aveng conducts its business affairs throughout the world. The group's code of business conduct is entrenched and implemented across all the Aveng businesses. To this end, Aveng strives both to improve the quality of life in the communities it touches and to achieve sustainable development at all levels. Aveng promotes policies and operating procedures across the group to conserve resources and minimise the environmental impact of its business activities.

It is the intention of the Aveng board to align the standard of the group's sustainability measures and annual sustainability reporting with internationally accepted standards. This goal, as well as the continually evolving expectations of our stakeholders, means that the development of the group's sustainability standards and policies is an ongoing and dynamic process.

Aveng's objective is to be profitable in a manner that acknowledges its accountability to the broader society and communities it serves and respecting the environment. The group makes a concerted effort to communicate in a clear, open, timely and realistic manner with its stakeholders and is committed to transparency to the extent that it is not detrimental to the business of the group and is balanced with the group's overall responsibility to the sustainability of the group, its employees and investors. Stakeholders are often engaged with or in conjunction with the group's customers.

The group has defined its stakeholders and determined the most effective and strategic methods of communicating key issues to them as follows:

Stakeholder	Form of communication
Investors	Annual and interim reports, profit announcements, SENS announcements, annual general meeting, investor relations programme, results presentations, site visits, corporate advertising, Internet, one-on-one meetings or telephone calls.
Employees	Internal newsletters, Intranet, staff meetings, social gatherings, labour union meetings, employee handbooks, training sessions, performance reviews, e-mail announcements.
Clients	Service and supply contracts, meetings, letters, e-mail updates, account statements, formal functions, personal visits, regular phone calls.
Business partners	Agreements, meetings, letters, e-mail updates.
Major contractors, suppliers and business partners	Contracts and service agreements, meetings, letters, e-mail updates, workshops, industry body meetings, formal functions, personal visits, regular phone calls.
Public and communities in which the group operates	Public relations, financial results advertisements, Internet, sponsorships, meetings with community leaders and corporate social investment beneficiaries.
Government local authorities and regulatory bodies	Tenders, presentations, formal and informal meetings, consultations, representations, seminars, workshops and other regulated formats.

In its communication with stakeholders, particularly the investment community, Aveng aims to present a balanced and understandable assessment of its position, performance and prospects, and to communicate in substance rather than in form. Although Aveng often reports beyond the minimum disclosure required, it is mindful not to contravene the JSE's regulations on disclosure.

Detailed interim and annual results are issued in the form of written reports, profit announcements in national newspapers, updates on the JSE Limited news service (SENS), formal announcements, media releases, annual general meetings and investor relations presentations. Investors also have access to updated financial information on the investor relations page on the Aveng website – www.aveng.co.za.

Aveng acknowledges that it is accountable to a wide group of stakeholders, including its employees, the communities affected

"The group's primary responsibility is to its investors and the board recognises its fiduciary duty to shareowners to maximise the value of the group's assets over time."

by its operations, its consistent "clients" and business partners. For this reason, in the past three years Aveng has placed greater emphasis on non-financial disclosure in its annual financial reports including employment equity, social transformation, social responsibility and environmental issues to address some of the communication requirements of its large stakeholder base.

Investor relations

The group's annual reports for the past four years have been ranked in the "Excellent" category in the Ernst & Young survey, "Excellence in Corporate Reporting". This is an external confirmation that the group's goal of high-quality financial and non-financial reporting is being achieved. The ranking is seen as an acknowledgment of the considerable effort that is put into the group's reporting and disclosures, and gives reassurance that the current level of voluntary disclosure is acceptable.

The group's primary responsibility is to its investors and the board recognises its fiduciary duty to shareowners to maximise the value of the group's assets over time. Aveng uses the services of an independent external firm of consultants to run a formal investor relations programme throughout the year. The investor relations programme aims to proactively build strong relationships with the investment community as well as the financial media. The programme is used to disseminate information as well as assimilate information from the investment community to ensure an accurate understanding of the operations of the group and its future plans, and thus an accurate valuation of the group's shares.

The group meets regularly with its shareowners and the investment community and biannually makes presentations to both local and institutional investors after the release of its financial results, as well as quarterly updates and site visits where relevant. Shareowners or their appointed representatives are encouraged to attend the company's annual general meeting, to vote on resolutions of the company and where relevant, enter into discussions with the directors.

Shareowners who are unable to attend investor presentations, including a significant group of international shareowners, can access a webcast of the presentation as well as other investor information on the Aveng website. As there is substantial interest in the Aveng share from international investors, senior executives also participate in investment conferences in the United Kingdom and the United States of America.

In addition, the chief executive and financial director endeavour to make themselves accessible to shareowners, the media and other stakeholders, and encourage direct discussions with the board and management, except during closed periods.

Shareowner information is available on page 221.

Environmental stakeholder engagement

Stakeholder engagement is a key activity during the development of major operational projects that will have significant environmental impacts. Stakeholder engagement is initiated during the engagement process and continues throughout the operational phases of the project.

In conjunction with its clients, Aveng aims to develop a positive working relationship with the key government departments tasked with implementing environmental laws. Similarly, stakeholder interaction is achieved through consultation and communication with employees, constructors, clients and communities through various forums and training sessions.

For projects requiring EIA's, scoping assures that concerns from stakeholders are identified. Where required these are assessed by appointed recognised subject specialists. Reports are included in the EIA documentation and required submissions to authorities, and are made available to interested and affected parties. Aveng operations worldwide conduct environmental forums and workshops predominantly for employees, contractors and members of the community to address the possible impacts of its operations on the environment in which it is operating and explain programmes in place to minimise impacts.

Examples of significant stakeholder engagements during the year include:

- Investor relations presentations for both the interim and year-end results, as well as two site visits for groups of fund managers and analysts, both of which were accompanied by a quarterly update.
- Grinaker-LTA has engaged with its major suppliers to assist them in obtaining a satisfactory BBBEE status in order to receive accreditation through their

Grinaker-LTA Building East's PMR award.

Toyota Paint plant – third place in "Construction World's" Best Projects.

"The group is dedicated to building and maintaining a robust, enduring business for the benefit of all its stakeholders, the South African economy and society."

website portal which rates all Grinaker-LTA's suppliers and service providers.

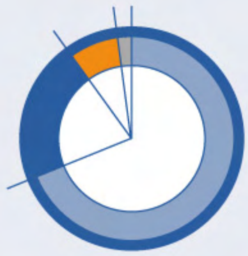
- Holcim (South Africa) held public forums with local communities and meetings with various government departments concerning the use of alternate waste-derived fuels at the Ulco cement kiln in Kimberly, as well as the expansion of its milling and blending plant in Roodepoort. In conducting its environmental impact assessment for alternative fuel sources, Holcim (South Africa) held workshops on the use of alternative fuels and resources, and representatives of NGOs, communities, industry and government representatives were invited to participate.
- In Namibia, Holcim (South Africa) engaged extensively with the Namibian government, clients and the media to rebuild its reputation and goodwill when it was unable to deliver on its promise to build a cement plant in Namibia.
- Grinaker-LTA was awarded an Urban Renewal Development project in Kalk Bay, which is taking place on an extremely sensitive site. As the site is an urban conservation area with historical significance, intensive consultation with communities and local authorities has been necessary.
- During the construction of the Berg River Dam project near Franschoek in the Western Cape, Grinaker-LTA, in joint venture with the other construction companies working on the site, took part in regular monthly meetings between the client and local residents to keep affected communities abreast of operations and progress.
- As the community begins to encroach on what was once industrial land set away from residential neighbourhoods, some of Grinaker-LTA and Trident Steel's operations continually engage with neighbouring communities on issues such as noise and dust pollution.

Industry recognition

Aveng and its subsidiaries are members of an extensive list of industry bodies and participate in a number of industry associations worldwide. During the year under review, Grinaker-LTA won a number of industry and customer awards for outstanding performance, the most significant of which are as follows:

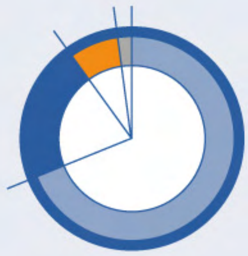
- The Oil and Gas operation in Nigeria recently completed its East Africa project for Technip and ExxonMobil to build offshore pipe bridges. This project was awarded the Exxon Mobil "Excellence in Construction" Award.
- Building Inland won the highest recognition in the USA's Tilt-Up Construction Annual Achievement Awards for the Award for Freedom Towers at Walter Sisulu Square of Dedication in Soweto.
- Grinaker-LTA Civil Engineering was awarded third place in "Construction World's" Best Projects and issued with a highly commended certificate for the Toyota Paint Plant at Prospecton Durban.

- Grinaker-LTA was presented with a number of PMR Awards. The Earthworks SA division in KwaZulu-Natal was rated first overall in the roads and maintenance category and received a diamond award. Building East received a golden arrow award for coming first overall in the construction companies section and Building Inland was awarded a bronze arrow award.



Value distributed
2006

- Employee costs 71%
- Retained for future growth 12%
- Capital providers 5%
- Taxation 4%



Value distributed
2005

- Employee costs 70%
- Retained for future growth 10%
- Capital providers 9%
- Taxation 1%

Economic impact

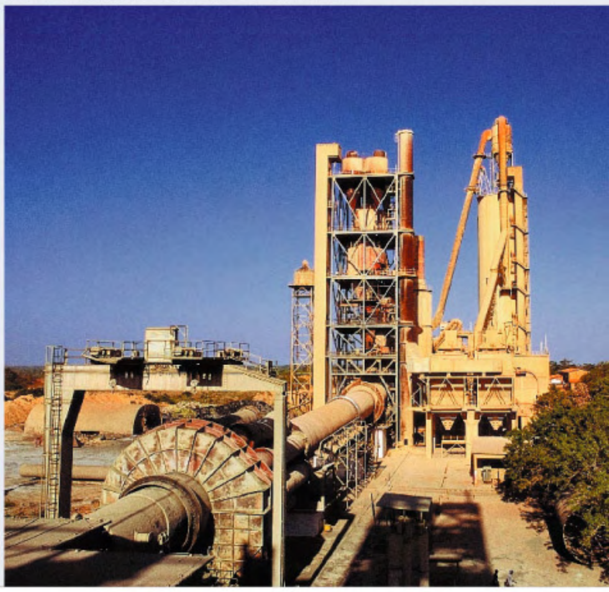
Aveng's capacity to act as a responsible corporate citizen is directly influenced by its financial performance. The group is dedicated to building and maintaining a robust, enduring business for the benefit of all its stakeholders and the South African economy and society. Aveng is committed to keeping accurate and reliable records that fairly reflect all business transactions in terms of the International Financial Reporting Standards, to ensure that the group is able to properly manage its affairs and meet its legal, financial and reporting obligations.

Wealth creation

Aveng strives to contribute positively to the development of society and the

Preventing pollution: Dump treatment project, Barberton.

Biomass fuel as an alternative energy source: Tanga cement plant, Tanzania.



Value added statement		2006 (Rm)	2005 (Rm)
Revenue		**16 053,7**	13 534,9
Net cost of products and services		**11 416,6**	10 054,0
Value added by operations		**4 637,1**	3 480,9
Income from investments and interest		**87,7**	81,6
Total value added		**4 724,8**	3 562,5
Applied as follows to:			
Employees as salaries, wages and other benefits		**3 347,9**	2 481,4
Providers of capital	– financing costs	**162,4**	240,5
	– dividends	**89,5**	54,5
The state as direct taxes		**197,7**	52,8
Total value distributed		**3 797,5**	2 829,2
Reinvested in the group	– amortisation and depreciation	**337,9**	385,6
	– reserves retained	**589,4**	347,7
Total value added		**4 724,8**	3 562,5

South African economy, through the creation of wealth and aims to improve its financial performance year-on-year to achieve excellent growth in all aspects of the business and increase wealth for its stakeholders and the communities in which it operates. The value added statement is a measure of the wealth created by the group during the year under review. It equates to the amount of value added by its diverse activities to the cost of raw materials, products and services purchased. The statement shows the total wealth created and how it was distributed.

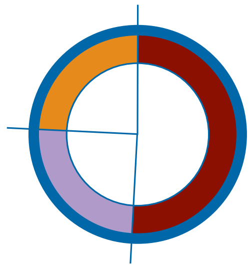
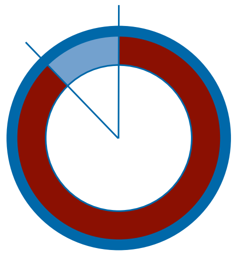
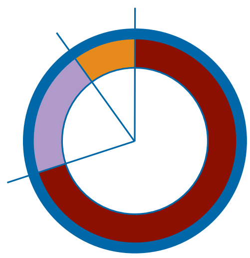
Broad-based black economic empowerment (BBBEE)

Commitment

Aveng is committed to addressing the country's transformation challenges by playing an active role in contributing to the social and economic development of historically disadvantaged South Africans. The group supports Government's BBBEE policy, as the group realises that the sustainability of its commercial success is intrinsically linked to the sustainable economic development of the country and all its citizens and is integral to being a model corporate citizen and truly South African company.

At the end of the year under review, the Construction Charter was finalised, which will clarify and quantify the path ahead for economic empowerment in the construction industry by setting specific BBBEE standards for the industry. The group has set a BBBEE strategy and targets for its transformation process that cover and promote all components of the Construction Charter, which is

Geographic segments and contribution to revenue

Business interest	Countries of operation		
Construction	American Samoa Angola Australia Azerbaijan Botswana Burkina Faso Fiji Guinea Indonesia Laos Lesotho Mali Mauritius Mozambique Namibia	New Caledonia New Zealand Nigeria Philippines Pitcairn Island Rwanda Singapore South Africa Swaziland Tanzania Thailand United Arab Emirates Zambia Zimbabwe	 SA packaging market by category (2004/2005) South Africa 51% Africa & Middle East 25% Australasia & Southeast Asia 24%
Steel and Allied	South Africa		 Revenue Steel South Africa 94% Other 6%
Cement*	Botswana Lesotho Namibia South Africa Swaziland Tanzania		 Revenue Cement South Africa 82% Southern Africa 9% East Africa 9%

** Equity accounted*

“Aveng is committed to addressing the country’s transformation challenges.”

aligned to the dti code and scorecard. The quarrying operations of Holcim (South Africa), are guided by the Mining Charter.

Aveng is mindful of the fact that its BBBEE strategies must also make sound business and economic sense for the group and offer sustainable value for shareowners and investors. Its transformation strategies and process are dynamic and open to regular evaluation to ensure that the group is progressing in the right manner and keeping abreast of changing needs.

Policy

The Aveng group sustainability policy incorporates the following transformation principles:

- Aveng views its responsibility to help bring about the economic empowerment of historically disadvantaged South Africans as integral to being a good corporate citizen and truly South African group, as well as a sound business imperative that will enable it to maintain its strong performance over the long term. The Aveng group of companies in South Africa will proactively strive to meet the targets set by regulations governing broad-based black economic empowerment in the areas of ownership, control, employment, equity, skills development, procurement, enterprise development and corporate social investment.
- Aveng’s South African procurement policy supports suppliers who in turn support the transformation of the South African economy and society. Businesses within the group actively promote the use of black suppliers for the provision of goods and services, and aim to develop long-term strategic relationships with black empowered business partners. The group will assist its suppliers in their endeavours to comply with the regulations governing broad-based black economic empowerment. In turn, the group will continue to implement transformation initiatives.
- Aveng is committed to economic empowerment through enterprise development and will actively form partnerships and joint ventures with black businesses to transfer skills and facilitate the development of strong black-owned businesses. In addition, wherever possible the group’s procurement policy actively supports the development of local small, medium and micro enterprises, particularly black-owned enterprises.
- Aveng’s employment equity policy requires that equal opportunities be offered to all employees. The group seeks to create an environment in which individuals who demonstrate commitment and ability are able to develop their careers free from any form of discrimination. In South Africa, the group is committed to broad-based black economic empowerment and aspires to build a workforce that reflects the demographics of South African society.

- Aveng recognises that ongoing investment in talent development, skills, training and employee upliftment is crucial to address the shortage of skills in the industry that are vital to the growth of the group and the country. The group views its investment in its own human capital as a strategic initiative that will give it competitive advantages and ensure the long-term sustainability of its business. In the group's operations worldwide, employees are given the opportunity to participate in skills development and training programmes, mentorships, career planning and regular performance appraisals to ensure their own growth.
- Aveng is aware that the long-term prosperity of the group relies on a climate of economic and social prosperity, which is linked to the sustainable development of society. The group is committed to social upliftment and aims to contribute meaningfully to nation-building through a corporate social investment programme that has partnering and enablement as its core philosophies. Every year Aveng contributes to deserving community investment projects through the Aveng Community Investment Trust. In addition, many of the group's operations are involved in other charitable projects, infrastructure development and many other initiatives to uplift the communities in which they operate, which involve financial contributions as well as the donation of goods and services and the transfer of skills.

Strategy

The accompanying diagram describes Aveng's seven leg strategy for BBBEE and its achievements to date:

The areas of skills development, employment equity and corporate social investment are dealt with in the section on Social Impact in this report.

Equity participation

Aveng led the way in the construction and steel industries by being the first significant group to conclude a high-level black economic empowerment transaction in February 2005. The Qakazana Consortium, a broad-based consortium led by TisoGroup, holds a 25% interest in Grinaker-LTA Limited and Trident Steel Holdings (Pty) Limited. Together Grinaker-LTA and Trident Steel make up over 80% of Aveng's revenue and therefore comprise the bulk of the Aveng business. This deal makes Grinaker-LTA the first large construction group in South Africa to have completed a top-level deal.

The nature of the transaction gives TisoGroup both the incentive and the opportunity to contribute strategically and operationally to the business. The Consortium also has two seats on each of the boards of Grinaker-LTA and Trident Steel.

McConnell Dowell Corporation was excluded from the deal as it is based

"Aveng led the way in the construction and steel industries by being the first significant group to conclude a high-level black economic empowerment transaction."

Area of focus	Achievements in 2006	Targets for 2010
Ownership	• Broad-based equity transaction with TisoGroup as the lead	• To be addressed over the long term to meet targets in Construction Charter of 30%
Control	• 18% of directors on Aveng board are black	• As per targets set for 2010 and 2013 in Construction Charter
Employment equity	• As per plan submitted to Department of Labour	• As per targets set for 2010 and 2013 in Construction Charter
Skills development	• 120 full-time bursaries and 93 apprentices awarded to black people • 12 625 black employees received some form of training at a cost of R19 million	• 150 full-time bursaries and 100 apprenticeships to be awarded to black people • 15 000 employees to receive some form of training at an estimated cost of R25 million
Procurement	• 20% of total procurement spend	• 25% of total procurement spend
Community investment	• 3,6% of prior year's headline earnings of Aveng. R13,2 million spent	• 1% of prior year's headline earnings of Aveng

in Australia and operates in the Eastern Time zone. Similarly, Holcim (South Africa) was excluded as it is an associate company of Aveng, with quarrying operations that are subject to different BBBEE requirements as set out in the Mining Charter.

Members of the BEE consortium

The Qakazana Consortium is broad-based and includes Aveng's employees, a community trust and a business trust, which effectively means that in excess of 70% of the profits of the deal will go to broad-based community groups. This is a strong incentive for these co-shareowners to do what they can to contribute to the success of the group. For Aveng, the commitment to social investment is an important component of the deal.

The four members of the Qakazana Consortium, TisoGroup, Tiso Aveng Women's Empowerment Trust, Aveng Community Investment Trust and Aveng Empowerment Trust contribute to the consortium as follows:

- *TisoGroup*
  TisoGroup has a 75% interest in Four Arrows (Pty) Limited, which in turns owns 48% of the Qakazana Consortium. The other 25% of Four Arrows is held by Tiso Aveng Women's Empowerment Trust.

  TisoGroup is focused on natural resources and related goods and services, and investment banking. It is headed up by Fani Titi, Nkululeko Sowazi and David Adomakoh. Management and staff own 41% of TisoGroup through the Tiso Staff Share Incentive Trust and Tiso Investment Holdings.

  Investec holds 17%, RMB holds 12% and Standard Bank owns 7% directly plus a further 5% indirect beneficial holding. The Dandala Family Trust holds 2% and a further 16% is held by the Tiso Foundation, a public benefit organisation.

  Apart from its shareholding in Grinaker-LTA and Trident, the TisoGroup holds 6,8% of Investec Limited, 25,1% of AEL, AECI's South African and African explosives operations, and 52% of Idwala Industrial Holdings, a company manufacturing lime for the steel and mining industries.

- *Aveng Community Investment Trust*
  The Aveng Community Investment Trust owns 20% of the Qakazana Investment Holdings (Pty) Limited. The trust is overseen by independent trustees. Aveng has made application to register the trust as a public benefit organisation. Public benefit organisation status

Preferential procurement: Walter Sisulu Square of Dedication, Kliptown, Soweto.

"Aveng believes that the most value it can add to the process of BBBEE is at the operating level where partnerships and joint ventures with black businesses and entrepreneurs can facilitate enterprise development and the transfer of skills."

pending, 1% of the group's previous year's headline earnings will flow to the trust, which manages the corporate social investment initiatives of the Aveng group. The trust is mandated by Aveng to focus on technical and business education projects and job-creation initiatives principally for the benefit of black South Africans within the broader construction industry. Ten percent of the trust's expenditure is to be allocated to the Tiso Aveng Women's Empowerment Trust, which is described below.

- *Tiso Aveng Women's Empowerment Trust*
  The Tiso Aveng Women's Empowerment Trust was established to benefit previously disadvantaged broad-based women's groupings. Participants are South African Women in Construction (SAWiC) and Women for Housing, which are both section 21 non-profit organisations created for the benefit of their members.

  SAWiC is focused on providing women with access to construction contracts, creating jobs, growing businesses and generally assisting women to compete in an industry historically dominated by men. At present, SAWiC has over 500 members, of whom approximately 80% are contractors and 20% service providers, with the balance being trades persons.

  Women for Housing facilitates opportunities for women involved in low-income housing delivery. It aims to provide women with the skills and ongoing support required to become successful economic participants and decision makers in the low-cost housing market to ensure sustainable and viable housing developments. Women for Housing has a network of over 600 women who are involved across the full range of housing delivery.

- *Aveng Empowerment Trust*
  The Aveng Empowerment Trust owns 32% of Qakazana Investment Holdings (Pty) Limited which reserves 75% of its equity for permanent employees of Grinaker-LTA and Trident Steel. The intention is to make allocations of units to each employee in Grinaker-LTA and Trident Steel in most years for the duration of the scheme. In the year under review, 100 units were allocated to each employee. These allocations are of equal size for all employees, irrespective of seniority. However, senior black employees may also be eligible for additional units at the discretion of the trustees.

The empowerment trust has set aside the remaining 25% of its units for selected black partners involved in joint venture and other business partnerships with the group's operations.

Future equity participation opportunities

As at 30 June 2006, Aveng does not envisage entering into another empowerment deal on a group level as the Qakazana deal covers around 85% of its revenues. The existing preference share deal with Tiso has been structured so that Tiso's call options may be settled either in cash or Aveng shares at the discretion of the Aveng board. If settled in shares, Tiso will become an Aveng shareowner.

Enterprise development

Aveng believes that the most value it can add to the process of BBBEE is at the operating level where partnerships and joint ventures with black businesses and entrepreneurs can facilitate enterprise development and the transfer of skills. The group's BBBEE objectives are best served by founding and growing construction and other companies with actively involved black shareowners who have a burning desire to succeed, are willing to work hard and are open to learning new skills.

The diversity of the group's operations, both geographically and from a product and services perspective, lend themselves to multiple opportunities to transfer skills through partnerships as well as joint ventures between Aveng's operating entities and black-owned companies and entrepreneurs. Although not considered enterprise development in accordance with the Construction Charter unless the partners are mentored as part of a formal programme, these activities are an effective way to transfer skills and encourage entrepreneurs to achieve their business goals.

Partnerships

The first step in Aveng's enterprise development strategy is for one of its underlying operating entities to establish a company with black shareowners who wish to be actively involved in an empowerment partnership. Typically, the underlying Aveng operation will hold a majority share in the early stages, which may be reduced over a five-year period to a position of less than 20%, with the black shareowners owning at least 51% in accordance with the requirement of the Construction Charter. In the final stages, the operating entity will exit the partnership once it is satisfied that the empowerment partner has acquired the necessary skills. It is never the intention to buy out an empowerment partner at a later stage.

As with all new enterprises, there are inevitable business failures, but Aveng prides itself on having predominantly created business success stories. Currently Aveng's enterprise development partnerships cover a wide spectrum of the group's activities in South Africa.

The table below sets out the major enterprise development relationships that existed with the group's businesses as at 30 June 2006:

Enterprise development

Year established	Empowerment company	Nature of business	Aveng's % interest
2001	Empowa Grinaker-LTA (Pty) Limited	Manufacture and supply of concrete railway sleepers and other concrete products	37,5
2002	Ensimbini Reinforcing (Pty) Limited	Cut, bend and supply of reinforcing steel	15
2004	Fraser & Chalmers Siyakha (Pty) Limited	Construction, installation and services in the mechanical, piping, electrical and instrumentation disciplines for the petrochemical industry	56,2
2003	Grinaker-LTA Vuselela Spares Supply (Pty) Limited	Market, sell and distribute spares and/or licensed equipment to the mining, chemical, energy and petrochemical industries	37,5
1998	KZN Reinforcing and Fixing Services (Pty) Limited	Fixing and positioning of reinforcing steel on a subcontract basis	24,7
2003	Lennings DEC Rail Services (Pty) Limited	Railway infrastructure development	52,5
2002	Lesedi Tracks (Pty) Limited	Underground rail track construction	22,5
2004	Magnificent Mile Investments (Pty) Limited	Transportation of cement	Pref. shares
2001	Reinforcing Fixing Services (Pty) Limited	Supply and fixing of reinforcing steel	33
2003	Rekaofela Refractory Services (Pty) Limited	Refractory installation and maintenance services	52,5
1998	Sivukile Contractors (Pty) Limited	Building contractors	21,7

The table below lists the joint ventures in existence with local black partners during the 2006 financial year:

Project	Empowerment company	GLTA %	Approximate revenue this financial year (our share) R'000
Atlas Road (R21) Interchange, Kempton Park	Yikusasa Building Contractors G4 Civils	75	1 851
Berg River Dam, Franschoek	Western Cape Empowerment Contractors Thamane Building Construction	32	69 065
Bethal to Kriel Road Rehabilitation	Ulusha Mining & Civils	80	9 493
CW Malan Building, Bloemfontein	High Pitched Investments	60	1 318
Glisa Coal Mine	Lidonga Minerals	85	20 119
Heidelberg Ext 23 & 26 Houses	Imisebe Trading	65	12 462
Hlabisa Hospital	Sakubula Management Services	80	33 294
Johannesburg International Airport	Black Top Surfaces	50	5 086
Juliette Apartments, V&A	Boshard Construction	70	21 521
Mondi Refurbishment	Sivukile Contractors	70	3 295
Montecasino, Theatre & Hotel	Sivukile Contractors	80	58 563
Pearl Reef Apartments, Umhlanga	Sivukile Contractors	60	19 305
Pretoria Academic Hospital	Thamane Building Construction Yikusasa Building Contractors	75	1 659
Refurbish Office Tower	Keren Kula Contruction	70	19 043
Sea Water Canal	Super Mining and Civils	70	7 130
Spoornet Rail Track Maintenance	Joe Shibambo & Associates	80	9 654
Spoornet Rail Track Maintenance	Joe Shibambo & Associates	80	5 174
Spoornet Rail Track Maintenance	Polyzomba Construction	75	21 257
Ugie de Stumping	Super Mining and Civils	70	1 818
Uitenhage Hospital	Boshard Construction	70	748
Zimbali Coastal Resort	Super Mining and Civils	80	35 680

Procurement

Although Aveng has set a target of 25% of total procurement spend from black enterprises for its group-wide operations. The group has been waiting for the finalisation of the Construction Charter in order to formalise and quantify its procurement policy. This policy will be drafted in the new financial year. Currently the group gives first preference to black-owned companies, followed by black empowered companies. Factors such as gender and disability ratios are also taken into account. However, in giving preference to black suppliers, Aveng will not compromise on quality, price, delivery and service, and will ensure that all safety, technical, commercial, compliance and environmental standards are met. Aveng also supports SMMEs and the businesses within the group currently support a number of empowered SMMEs through preferential procurement initiatives, financing and the transfer of skills.

In the past two years, Grinaker-LTA has undertaken a substantial BBBEE procurement drive, which accredits suppliers through its website. Two dedicated employees ensure that this process functions smoothly. In

"In the year under review Aveng procured products and services from approximately 720 black-owned companies and black empowered companies."

order to ascertain the BBBEE credentials of its supply chain, Grinaker-LTA Construction established an online questionnaire on the www.grinaker-lta.co.za website, which enables all suppliers and service providers to report on their BBBEE status by registering on the site and completing the questionnaire. This portal facilitates the rating of suppliers' BEE credentials according to the sector in which they operate. The rating mechanism used by Grinaker-LTA is supplied and supported by B1 SA. In the year under review, Grinaker-LTA spent 18,3% of its total expenditure with suppliers and service providers with BBBEE businesses.

In the year under review Aveng procured products and services from approximately 720 black-owned companies and black empowered companies. This amounts to 19% of the group's total discretionary procurement spend, an increase of 1% compared to 2005. The 2007 target for total preferential procurement is 20% in order to develop its supply chain to comply with the requirements of the construction charter.

Some operational examples of preferential procurement from suppliers:

- At the Walter Sisulu Square of Dedication in Kliptown, Soweto, the sub-contractors utilised to build the formal wholesale market sheds were 100% SMMEs and all locals from the Kliptown community. For the entire project, local SMMEs totalled 100 out of the 130 sub-contractors employed. As some had no or little experience, Grinaker-LTA provided on-site training and support. In order to accommodate the specific needs of these local SMMEs, payments were made to some fortnightly as opposed to monthly and Grinaker-LTA procured materials for approximately 96% of the sub-contractors. Approximately 10% of materials purchased were from local suppliers in Kliptown.
- Holcim (South Africa) has a Lorry Owner-Driver (LOD) programme for the transport of aggregates and readymix concrete. As a part of this programme, LODs are assisted by the company to acquire affordable finance for their vehicles and to obtain discounted consumable prices. The company has also trained business managers who assist the LODs in the administration of their businesses.
- Holcim (South Africa) has also established a joint venture operation with Unitrans Limited, a transport and logistics company, to establish a BEE transporter for cementatious products. The company assisted in the financing arrangements for the purchase of part of this company by a BBBEE partner, and put in place mentoring and coaching programmes for senior management of the BBBEE partner company.

In accordance with the spirit of the dti Codes and the Construction Charter, Aveng's procurement policies are often used to enrich the lives of the local population wherever the group is operating. As far as possible Aveng procures its supplies and services and recruits its work force from local communities, particularly when operating in remote and rural areas. Where necessary, unskilled local labourers receive on-the-job training to ensure they have the skills required to complete the project. The economic empowerment of local businesses and communities is also often a requirement stipulated by clients in their contracts with the group.

Operational examples of procurement of sub-contracted labour from local communities:

- Grinaker-LTA's Kalk Bay Urban Renewal Project in the Western Cape will employ some 250 people, with the majority of the employees coming from the Peninsula area. All labour-only contractors are from previously disadvantaged communities and are receiving on-site training.
- Karrena Africa, a division in the Grinaker-LTA Civil Engineering business unit, won a project to rehabilitate bridges on the N12 between Soweto and Witbank in Gauteng. Predominantly local labourers were employed on this project and a training programme was implemented to train unskilled employees.
- For the Berg River Dam project near Franschoek in the Western Cape, Grinaker-LTA and the other partners in the project trained people from the local community in a variety of construction skills as well as life skills. Some of these people were eventually employed in the construction team. Up to 1 800 people were employed on the project.
- The rebuilding of the MR5 and MR6 roads in Swaziland by Grinaker-LTA Earthworks has offered employment to around 900 Swazi citizens, and will improve their lives through the transfer of new skills as well as better accessibility to neighbouring villages and towns through the reconstructed road.

Indirect impacts

The total economic impact of an organisation includes indirect impacts. These are usually benefits arising in the course of its business to which a monetary amount is not directly attributable. Aveng does not assess and quantify its indirect economic impacts. However, some of Aveng's indirect economic benefits are as follows:

- Expenditure on products and services to suppliers increased by 12,5%, which in turn creates opportunities for our suppliers to employ more staff to keep pace with the group's demands.
- The group uses the products and services of a large range of people and companies in many regions around the world. Through its supply chain, the group injects wealth into those communities from which it procures.

"The group views the curtailment of its environmental impacts as vital to the wellbeing of the communities and ecosystems in which it operates."

- The company often constructs infrastructure and other assets which are beneficial to the economy and the communities in which the project is located. For example the development of alternative, renewable energy sources, the building of wharfs to increase the country's import and export abilities and the construction and maintenance of roads and airport runways to improve transportation services, etc. Some projects like Constitutional Hill and the Walter Sisulu Square of Dedication have value as national monuments while also providing much-needed economic and social infrastructure and services.
- New innovations, research and development supported by corporations is of economic benefit to the country. The construction, mining and manufacturing industries are always seeking innovative ways to enhance their products, services and work processes to ensure improved quality, cost effectiveness, safety and speedier delivery while also minimising impacts on the environment and society. Research and development to create fresh innovations is regularly conducted by various business units within the group to improve on and develop new products and processes and minimise any negative impacts of its current practices.

Environment

Commitment

Aveng respects the rights of every South African citizen as guaranteed in the South African Constitution to an environment that is not harmful to their health or well-being and the right to have the environment protected, for the benefit of present and future generations. This is to be achieved through reasonable legislative and other measures that prevent pollution and ecological degradation, promote conservation and secure ecologically sustainable development and use of natural resources while promoting justifiable economic and social development.

Aveng recognises that due to the nature of its construction, mining and manufacturing activities, it has the potential to significantly impact on the natural environments of the countries in which it operates. Being mindful of the group's environmental effects is an important element of Aveng's overall business strategy. The group views the curtailment of its environmental impacts as vital to the wellbeing of the communities and ecosystems in which it operates and thus ultimately, an essential part of the long-term sustainability of the group.

In the same way that the group recognises the need to operate in harmony with South Africa's ecosystem and people, Aveng's global operations are committed to working in a manner that balances the group's need to be profitable with the demands of the economy and social development and the imperative to protect the frailty and integrity of the environment wherever in the world their activities may take them.

Aveng is committed to identifying, assessing and reducing the environmental impact of the activities performed by its operations, its production and supply chain and any of its products or services that may have a significant direct environmental impact.

Scope of this report

The challenges discussed earlier in this report, apply equally to establishing a single standard for environmental compliance across all business areas of the group given the potential for a variety of impacts. The impact of the group's activities on the environment are varied, given the diversity of Aveng's business interests, which include some potentially high impact activities like roads and earthworks, opencast mining, property development, the manufacture of steel products and quarrying. However, Aveng is committed to developing environmental management systems (EMS's) based on ISO 14 001 within all the group's operations and elsewhere as appropriate.

As many of the projects undertaken by the group's operations are on a contract basis for clients, accountability for the environmental impact of these operations vests with the client. The client, as the owner of the land or the project, has the responsibility to assess the impacts of the project and implement appropriate management and monitoring criteria whilst being mindful of its responsibilities and environmental obligations. Where the client does not undertake an environmental impact assessment (EIA), the relevant group operation will conduct an EIA to assess the potential environmental consequences associated with the project and review the preventative and remedial actions required. It is the group's policy to refuse to supply goods or services to any project that may have a significant detrimental impact on the environment.

Management and performance

Environmental policy

The Aveng group sustainability policy incorporates the following principles relating to the group's impact on the environment:

- Aveng is committed to the protection of the environment and to the reduction of environmental impacts stemming from its business activities to as low a level as is reasonably practicable. The group will

Skills transfer: MR5 and MR6 roads in Swaziland.

Kalk Bay urban renewal project.

“The group aims to use energy, water and other natural resources and raw materials effectively.”

promote policies and operating procedures that conserve resources and minimise the environmental impact of its business activities. The group aims to use energy, water and other natural resources and raw materials effectively, and prevent pollution by controlling its emissions, discharges and wastes, and disposing of or recycling materials in an environmentally friendly manner.

- Aveng will undertake internal and external audits to identify areas of possible environmental risk, and will identify potential significant environmental impacts for each major project, product, service and permanent facility through environmental impact assessments. As most projects undertaken by the group’s operations are on a contract basis for clients, accountability for the environmental impact of these operations is that of the client. For projects that have environmental consequences, the group will develop and implement environmental management systems and plans to eliminate or minimise environmental impacts at the request of and on behalf of the contracting client.
- Aveng encourages its operations to obtain ISO 14 001 certification and to comply with all relevant environmental legislation, regulations, construction industry codes of practice and other best practice environmental standards.
- Aveng will consult and communicate with employees, contractors and clients on environmental issues to clearly define responsibilities and accountabilities. The group will encourage a culture of environmental awareness and care amongst its employees, contractors and clients through negotiated key performance areas, information, training and supervision to limit the environmental impact of the group and its clients.
- Aveng will undertake appropriate rehabilitation of the environment at the request of the contracting client. Where Aveng acts on its own behalf and these activities have a negative impact, the group sets aside adequate funds and resource for environmental preservation and rehabilitation. In all instances of an environmental incident, the group undertakes to take timeous steps to limit the damage caused, clean up and rehabilitate the environment.
- Aveng will strive to continually identify ways to improve on its environmental performance through an ongoing programme of review and corrective action and undertakes to provide the necessary resources and management support to achieve this goal.
- Aveng supports green procurement and encourages its operations to give preference to contractors and suppliers that adopt environmentally-responsible practices.

As there are no universally accepted principles for reporting on environmental performance, the group has adopted the reporting framework proposed by the Global Reporting Initiative (GRI) as a means to qualitatively report on the organisation’s impact on living and non-living natural systems, including ecosystems, land, air and water. The group's performance in relation to the core GRI indicators can be found on page 91 of this report.

Environmental management systems (EMSs)

Each operating subsidiary within the group has its own environmental policy and management system. In order to establish a minimum standard across all its operations, Aveng has set out broad requirements for the environmental management systems of its operating entities as follows:

- Develop EMS's based on ISO 14 001 within the operations of the group and elsewhere as appropriate;
- Comply with all relevant environmental legislation of the country of operation;
- Meet the environmental management commitments of clients;
- Ensure that subcontractors and suppliers adopt environmentally responsible practices;
- Minimise pollution in any form by promoting a culture of environmental awareness;
- Encourage the conservative use of energy and other natural resources, reducing the generation of waste and preventing the discharge of any substances that are hazardous to the environment; and
- Ensure that there is continual improvement in environment conservation policies and practice through an ongoing programme of review and corrective action.

These are the minimum standards required by the group from its operations. Thereafter, each operation within the group is responsible for its own specific environmental policies taking into account the requirements of clients, the circumstances of the countries within which it operates and ISO 14 001 requirements.

In order to manage the group's environmental risks systematically and efficiently and achieve the group's stated goal of sustainable development, all operating units are working towards implementing EMSs in accordance with the ISO 14 001 standard, as the single standard for environmental compliance across all areas of the group. Accreditation comes from the internationally-respected International Standards bodies in accordance with the requirements of ISO 14 001:1996. As the most recognised international standard for EMSs, ISO 14 001 is based on three key principles:

- Prevention of pollution;
- Compliance with relevant environmental law; and
- Continual improvement in both the system and environmental performance.

The board of Aveng reviews and evaluates the environmental management systems of its operations in order to assess the ongoing associated risks as well as the suitability and effectiveness of the EMSs in the light of the group's environmental policy, environmental legislation, community expectations and changing conditions both within and outside the organisation. Aveng directors are represented on the boards of Grinaker-LTA, Holcim (South Africa), Trident Steel and McConnell Dowell, and in this way are made aware of any environmental issues within the group.

As at the year end, the following progress had been made in implementing ISO 14 001 EMSs throughout the group's operations:

- All cement operations at Holcim (South Africa) are ISO 14 001 certified, including the Roodepoort, Dudfield, Ulco and Readymix operations. In 2004, Tanga Cement was the first cement company in Tanzania to achieve ISO 14 001 certification.
- Three of Grinaker-LTA's operations have been ISO 14 001 certified and a further seven applications are in process.
- Trident Steel has made significant progress in its safety, health and environment risk assessment at their Roodekop site as part of the groundwork in applying for ISO 14 001 certification. No objectives and targets have been set by the company for the management of its direct environmental impacts, but targets will be set during implementation of the ISO 14 001 EMS. Once the Roodekop site is ISO 14 001 certified, Trident will implement ISO 14 001 compliance across the remainder of its operations.
- The McConnell Dowell group has ISO 14 001 accreditation, which covers all controlled companies with this group.

Obtaining a globally recognised EMS accreditation like ISO 14 001 is becoming essential for companies that need to register for trade licences in foreign countries such as Tanzania and Swaziland. Part of these applications contain a qualification process whereby the company's environmental impacts, along with other sustainability issues, are evaluated as part of one of the deciding factors for granting the necessary trade licence.

The group's operations that have ISO 14 001 certification are able to offer ISO 14001 Environmental Management System training to staff, hourly-paid contractors and labour-only contractors. This training programme provides education, training and awareness to highlight the importance of each individual's role in taking responsibility to comply with legislative requirements. As a spin off, this training may also create awareness that will filter into the communities.

Risk assessment

In the process of its business operations the group has indirect and direct impacts on many areas of the ecosystem as land is altered, natural resources are utilised, ground and surface water is affected, gases are emitted and waste is generated.

In general, the group undertakes EIAs where these are required by the client or law. Where one of the group's operations is contracted by a client to a project that may have environmental impacts, the client is responsible for assessing the risk and formulating an EMP. Remedial action such as rehabilitation is initiated by the client and at the client's request may be implemented by the operation as part of the contract. The group establishes an environmental management plan for use on contracts where the client has not requested a specific plan. The group's operations are often requested to find solutions to mitigate environmental impacts and rehabilitate affected areas.

Where one of the group's operations acts on its own behalf, an environmental impact assessment

(EIA) is conducted for all new projects that are likely to have an effect on the environment in order to assess the impact as well as preventative and remedial actions.

For all EIAs conducted by the group, areas of concern are normally identified by internal and external audits and where necessary specialist studies are conducted. The output is incorporated into a site environmental management programme (EMP), which must also comply with all relevant government legislation and regulations. The EMP governs any required intervention, as well as management and monitoring of the impacts for the duration of the project. The group's overall approach to EMPs is based on a culture of prevention and continual improvement, requiring plans to be proactive, cost effective and to the client's satisfaction.

In countries that do not require EIAs, the group adheres to international best practice for environmental management and will take into account the ISO 14 001 EMS standards.

All of the group's operations employ one or more safety, health, environment and quality (SHEQ) managers who are responsible for providing the support necessary for the successful implementation of an EIA and EMP. The SHEQ manager also ensures that the client's as well as the group's minimum standards on environmental performance are upheld. In addition, all managers are responsible for the prevention of environmental pollution in their respective units by ensuring the implementation of risk management processes and associated risk control methods.

Each project has a project manager who is responsible for ensuring that environmental risk management processes are implemented for the duration of the project as per the agreement with the client. Risk control measures are regularly monitored and reviewed to ensure continuing effectiveness.

Supervisors and foremen are made aware of the environmental impacts of the project so they can assess potential environmental aspects on the job and instruct employees to

Emissions reduction: Holcim's Dudfield Kiln 2.

"The group's overall approach to environmental management programmes is based on a culture of prevention and continual improvement."

accomplish the work without harming the environment. Ultimately, all employees are responsible for complying with environmental controls on the project and are required to be active in awareness on the job by reporting inadequate conditions or practices to supervision. Where required the group arranges for environmental skills and training for employees working on environmentally-sensitive projects.

As an operational example, Grinaker-LTA is leading the joint venture construction consortium for Berg River Dam project in Franschoek, South Africa. At the heart of the R1,9 billion project is an approved EMP, which is being implemented on behalf of the client, Trans Caledon Tunnelling Authority. As the managing contractor on this project, Grinaker-LTA will ensure that this detailed blueprint on socio-economic strategies, guidelines for environmental design and specifications, and programmes for river and environmental monitoring is meticulously implemented. This is typical of the way environmental impacts are managed by the group on behalf of its clients.
In general, the group conducts EIAs on all new projects undertaken by and for the group, as well as ongoing EIAs on existing operations, where there is a significant risk to the environment. In the year under review, Trident Steel undertook EIAs with the installation of generators at their Roodekop site.

Legal compliance

Aveng has successfully completed numerous construction projects throughout the developing world without ever having had a major environmental incident and without having incurred fines for non-compliance with applicable international declarations, conventions and treaties or national, regional and local regulations associated with environmental issues.

Aveng is not aware of any pending environmental litigation against its operations. No fines were imposed during the year under review for non-compliance with local or international environmental regulations and permits and no incidences of non-compliance were reported. The businesses of the group undertake to report any infringements of any regulatory, permit or licence conditions to the applicable authority and to undertake corrective action as soon as possible. Provision is made in EMSs for clean-ups and funding is set aside for such events in the event of an environmental incident. In addition, the group makes provision for rehabilitation funding on the closure of all quarries and mines.

Where operations of the group undertake activities requiring the authorisation or permission of a government regulator, the required permits and licences are obtained, such as permits for water consumption, mining activities and the purchasing and storing of acid as well as licences are scheduled processes such as mining and cement manufacturing.

Green procurement

Aveng supports green procurement and uses its purchasing power to give preference to contractors and suppliers that adopt environmentally-responsible practices. The group's environmental policy requires all business units to ensure that subcontractors and suppliers adopt environmentally responsible practices.

Although Aveng generally does not perform a detailed risk assessment in relation to significant environmental impacts that result from activities performed by contractors or suppliers, the group does give preference to suppliers who adhere to environmentally-friendly manufacturing and distribution processes and products.

In procuring services and products, the group makes use of formal vendor evaluation processes that include requirements relating to environmentally-friendly processes. Approved suppliers and contractors must comply with the conditions of the group's procurement contracts and service level agreements, which may contain environmental clauses.

At a site-specific level, environmental requirements form part of contractor induction programmes. When working in foreign countries, Aveng applies these procurement principles in the context of the procurement policies of each country.

Impacts

Materials

Other than water and energy consumption, the key materials used by Aveng's subsidiary and associated companies include:

Primary focus areas	Business	Key materials used
Construction and Mining	Grinaker-LTA and McConnell Dowell	Building and construction materials including bricks, cement, stone and sand, metals (particularly steel), paints, emulsions, polymers and solvents, oils and lubricants, fuel, wood, tar.
Steel and Allied	Trident Steel and Grinaker-LTA	Steel and alloys, acids, oils and lubricants, packaging materials, carbon, oxygen, nitrogen and LPG.
Cement	Holcim (South Africa) and Grinaker-LTA	Slagment, fly ash, synthetic gypsum, silica fume, pozzalana, cementitious extenders and fillers, dolomite, limestone, sand, steel, fuel, coal.

The requirement for these materials is largely dependent on the type of operation being undertaken and the fluctuation in demand for products manufactured by the group. Currently no meaningful data is available on the quantities of raw, waste and recycled materials used across the group's operations worldwide.

“Aveng’s environmental policy encourages the conservative use of energy throughout its operations.”

Energy

Aveng’s environmental policy encourages the conservative use of energy throughout its operations. The group encourages all operations to regularly service and upgrade all plants, machinery and vehicles to ensure optimum fuel and energy efficiency. In addition, operations are encouraged to conserve energy by shutting down machinery and switching off lights and equipment when not in use.

It is not possible to accurately measure the group’s use of power consumption as it has many business units worldwide as well as temporary site offices across the globe, and is often only one of many contractors making use of a single energy supply on a project. For these reasons, the group’s energy consumption across its operations worldwide is not measured.

Currently the main sources of energy used by the group are:

- coal including Eskom electrical power;
- gases;
- nuclear energy from Eskom in the Western Cape;
- diesel fuel; and
- sources of renewable energy such as biomass alternative fuel.

Over the years the group has undertaken research and development projects on behalf of clients and on its own initiative to investigate alternative sources of energy that are cost-effective, environmentally friendly and sustainable, as well as new initiatives to increase energy efficiency. Some of these initiatives are discussed under the operational examples below.

Where possible, the group will decrease its reliance on non-renewable fossil fuels by increasing its use of natural, renewable energy sources. This in turn will reduce carbon dioxide emissions and minimise global climatic change.

Operational examples of energy conservation:

- During the year under review, an energy assessment was conducted at Trident Steel’s Roodekop site. Amongst other recommendations, the company was advised to install power factor corrector (PFC) equipment to save on electricity used. The goal of a PFC is to derive the greatest amount of usable power from the least amount of input current. The savings generated by the PFCs should cover the costs of the initial capital outlay to install them, whereafter the company will continue to benefit from electricity cost savings. The installation of PFCs will be duplicated across all Trident Steel branches.
- Improvements by Holcim (South Africa) to Dudfield Kiln 3 will result in reduced energy consumption per ton of clinker processed from 4 050 mJ per ton to 3 333 mJ per ton. This will make Dudfield Kiln 3 the most environmentally friendly kiln in Africa.

Operational examples of the use of alternative energy sources:

- Electrical consumption is one of the largest cost items for Holcim (South Africa), as cement manufacturing processes are energy intensive, requiring consistently high temperatures for clinker production, resulting in large amounts of fossil fuel, mostly coal-derived, being used. Energy reduction programmes are in place at all operations, and the company embarks on energy efficient initiatives, which include pioneering the use of alternative renewable waste-derived fuels to replace the use of non-renewable fossil fuels. Holcim (South Africa) is the first and only known cement producer in South Africa to conduct EIAs for future usage of alternative renewable fuels and resources. Its progress in this area to date is as follows:

- In line with its National Waste Management strategy, government has given Holcim (South Africa) permission to use alternative waste-derived fuels at its Ulco plant near Kimberley. This initiative aims to replace the use of coal to heat the cement kilns with waste materials such as tyres, rubber, paper sludge, plastics, solvents and industrial tars. In addition to providing an alternative fuel source, this process also addresses the universal problem of waste disposal for non-biodegradable, non- recyclable wastes such as tyres that are piling up around the country. This alternative energy will also reduce the emission of CO_2 and other greenhouse gases. Holcim (South Africa) conducted EIAs to ensure that the use of these alternative fuel sources would benefit the environment without compromising the health of employees and the community, and that all emissions released comply with legislation. Emissions monitoring and control systems are currently being upgraded at the Dudfield cement kilns to allow the conversion to this renewable energy source.
- Tanga Cement in Tanzania uses biomass fuel derived from cashew nut shells, sea flower cake, sunflower cake and coconut husks for about 10% of the total energy consumption it requires to heat up the kiln. Plans are in place to increase its use of biomass fuel as an alternative energy source, which will reduce the consumption and high costs of fuel oil.

Environmental awareness: The Sasol pipeline from Temane in Mozambique to Secunda in South Africa.

Minimal environmental impact: The Birla-Nifty lateral pipeline in the Great Sandy Desert, Australia.

- Grinaker-LTA was awarded the contract to construct the environmentally-friendly BP South Africa head office. This building was recently given an award as the most innovative office development in South Africa. The BP head office was designed for optimal energy and water efficiency and has more solar panels than any other building in Africa. The solar panels provide 10% of the building's electricity requirements. In addition, lighting for employees' desks is motion sensitive and switches on and off by itself.
- The pipeline constructed by Grinaker-LTA, McConnell Dowell and CCC for Sasol transports natural gas from 33 gas wells in central Mozambique to Secunda in South Africa, delivering a heat-energy equivalent of almost five million tons of coal per annum to users in South Africa. The use of natural gas substantially reduces the use of coal, which is a non-renewable fossil fuel, and alleviates pollution emanating from the production of energy by burning coal such as acid rain.
- The Wonderwater Coal Mine near Sasolburg, which is being mined by Grinaker-LTA's specialist opencast mining business, Moolman Mining, used coal mined from its own operations as one if its primary energy sources. This was replaced with gas from the Mozambique gas pipeline, which will in turn reduce the mine's greenhouse gas emissions.
- McConnell Dowell designed and constructed the first biomass facility in Australia for Earthpower Technologies. The facility has the capacity to convert up to 100 000 tons per year of food waste into biogas, which is used to generate electricity. In addition to reducing the consumption of non-renewable fossil fuels, the use of food waste also reduces emissions of methane and other greenhouse gasses associated with decaying waste. The process also captures the nutrient value of food waste by producing high quality solid and liquid fertilisers and re-usable clean water as by-products.

Water

The scarcity of potable water is increasingly becoming a source of concern for South Africa, and the ever-present threat of wide-ranging drought has become the responsibility of every South African citizen. In compliance with the National Water Act of 1998, all the group's local operations falling within the ambit of the Act have obtained a water user's licence from the Department of Water Affairs and Forestry.

During the year under review, none of the group's operations reported any significant discharges to water. Additionally, no water sources and related ecosystems are significantly affected by the group's use of water. The group's operations do not impact on any Ramsar-listed wetlands.

Substantial quantities of raw and treated water are used in the daily operations of the group, particularly in the cement business. The group's operations source a substantial amount of their water requirements from municipal and local government water supply systems. Alternative sources of water such as recycled and borehole water are used wherever possible, providing this does not infringe on any municipal regulation or client agreement. Water is recycled wherever possible. Water that flows back into the environment is treated prior to release and where required is discharged under a valid discharge permit.

The quantities of water used by the group's operations vary depending on the types of activities being undertaken. Despite the fact that it is not possible to measure the quantity of water used across the group's operations due to the variety and number of operations and the fact that the group has a number of temporary site offices worldwide, water conservation is an area of major focus at all operations and the group's operations have been involved in many projects and innovations to save water.

Operational examples of water conservation:

- The innovative and environmentally-friendly BP South Africa head office built by Grinaker-LTA was designed for optimal energy and water efficiency. The building has an underground water tank which holds 1,35 million litres of water accumulated from the roof. This water is used to water plants and for flushing toilets. This initiative is in line with the water savings drives by the government – particularly in the Western Cape where the new BP head office is situated.
- Holcim (South Africa) uses a patented "wash-pit recycling plant" for its readymix business, resulting in savings of freshwater consumption of about 20% at readymix operations. All wash-water and recovered aggregate are recycled and reused at most operations and aggregate quarries where product washing is required, resulting in no effluents from readymix operations.
- In constructing Sasol's Temane to Secunda natural gas pipeline, Grinaker-LTA, McConnell Dowell and CCC used large volumes of water for pressure hydro testing of the pipeline. To reduce water consumption, all water used was stored for re-use in subsequent tests. Water was carefully sourced to ensure that no sulphur-reducing bacteria existed, thus negating the need to treat and consequently contaminate the water with a corrosion-prevention biocide. On completion of the project, the water was treated and discharged with the approval of the Department of Water Affairs and Forestry. This resulted in the safe return of the water in an uncontaminated state to existing water users in an area experiencing its worst drought in ten years without contamination of watercourses.
- Grinaker-LTA developed an innovative solution for Foskor to stop all point-source discharge of process water into the Selati River, which flows through the Kruger National Park. The solution involved building 18 collection ponds around the existing tailings dams, a new collection dam and two new concrete buffer dams. Of the estimated 200 mega-litres of water used daily in the mining process, approximately 70% is recycled using this solution. In addition, ramps were built on the collection ponds to give access to hippos.
- Grinaker-LTA was awarded the project to re-mine the dumps in

"Aveng actively endorses plans to protect native ecosystems, biological resources and flora and fauna species in biodiversity-rich areas."

the Barberton area, where dumps and tailings dams from early mining operations were posing a serious pollution threat to the Crocodile River. Once gold tailing deposits have been treated, the tailings are deposited in purpose-designed dams, trapping all polluted water, which eventually evaporates. The river is constantly monitored to assess water quality before, during and ultimately after reclamation, and the data shows significant improvement.

Biodiversity

Aveng actively endorses plans to protect native ecosystems, biological resources and flora and fauna species in biodiversity-rich areas. The objective of the group's biodiversity initiatives is to minimise the effect of any project on local flora and fauna, particularly any endangered or protected species, and to have no impact on natural habitats in the vicinity of the project beyond that reasonably anticipated at the design phase.

The majority of the group's operations are conducted in industrial or urban areas where there is minimal or no impact on terrestrial and water environments or biodiversity-rich areas. The exceptions are the group's mining and cement businesses, which operate on large tracts of land encompassing some biodiversity-rich habitats and threatened biomes.

The group mitigates negative impacts to ecosystems by conducting EIAs on behalf of the contracting client or on its own initiative, and implementing an EMS to restore the ecological integrity of degraded areas. Measures undertaken to protect biodiversity areas on land and in water include demarcating environmentally sensitive areas, limiting the clearing of vegetation except for areas infested by declared alien plant life, recycling instead of burning cleared vegetation, limiting the risk of uncontrolled fires in native vegetation, creating and remaining on designated haul roads, identifying significant fauna and flora to be protected, preventing the unnecessary death of animals, prohibiting the introduction of any exotic fauna and flora into the area, preventing spillage of fuels, oils and other hazardous substances, minimising the use of chemical sprays and disposing of rubbish and waste in an environmentally-friendly manner.

Environmental management programmes for mining, quarrying and construction activities require topsoil to be segregated and stockpiled separately as far as possible for re-use in the subsequent rehabilitation of the area. Programmes are also undertaken to prevent soil erosion and where possible to restore the land to its previous land use capability. Rehabilitation processes are constantly monitored and reported on to ensure that progress is achieved in accordance with environmental management programmes and that the group's biodiversity goals are achieved. The group makes provision for rehabilitation funding on the closure of all quarries and mines.
Holcim (South Africa) undertakes extensive activities in biodiversity-rich habitats as it operates in around 60 different sites. Land owned by the company includes approximately

2 000 Ha of threatened biome in Saldanha, Western Cape, about 125 Ha of threatened biome at Wolvenest, Western Cape and the Sterkfontein Mine in Gauteng, which occurs within a world natural heritage site. However, strict environmental management programmes that incorporate plans for the reclamation and rehabilitation of biodiversity in degraded areas, have made the group's quarrying, mining and associated beneficiation businesses industry leaders in environmental management for many years and have mitigated negative environmental impacts. Where applicable, Holcim (South Africa) lists of IUCN Red List Species are compiled and documented through research by independent specialists. Areas where IUCN Red List Species have been identified include Eikenhof Quarry, Saldanha (limestone Strandveld), Peninsula and Rheebok Quarries (Renosterveld) and Wolvenest (succulent Karoo).

Operational examples of biodiversity conservation:

- In Australia, McConnell Dowell was contracted by Gas Transmission Services to construct a pipeline, the Birla-Nifty Lateral Pipeline. McConnell Dowell was commended by the client for its co-operative working relationship with the environmental consultants, which resulted in the construction of the pipeline with minimal environmental impact on the fragile landscape of the Great Sandy Desert.
- The Berg River Dam project near Franschoek in the Western Cape, which is being managed by Grinaker-LTA, requires about two million cubic metres of earth to be moved. Most of the ground moved will be used to form an earth-fill embankment. Topsoil is being stockpiled for landscape rehabilitation.
- Grinaker-LTA's mining operations at the Wonderwater coal mine are in an environmentally-sensitive area near the Vaal River. This is a classic strip mine where the overburden is replaced in the same order as it was removed. Since 1992, for every one million

Biodiversity conservation: Berg River Dam project.

Emissions: Dust created during laser cutting is collected via an extraction system.

tons of coal mined approximately five million tons of overburden is removed, stockpiled and eventually replaced. Moolmans has completed the mining of coal at the Wonderwater strip mine and is rehabilitating the area by reintroducing soil, planting grass and flora and reintroducing fauna.

- Sasol's natural gas pipeline project undertaken by Grinaker-LTA, McConnell Dowell and others, encompassed the laying of a 66 cm diameter steel pipeline underground over a distance of over 870 kilometres. The pipeline crosses 19 major rivers, nearly 100 streams and creeks and 273 wetlands. The water quality, hydrodynamics and functioning of these rivers and wetland ecosystems was successfully preserved during operations by developing and implementing site-specific method statements with the help of various specialists, which were discussed with the client, property owners and approved by the water authorities prior to construction.
- Where possible, Holcim (South Africa) practises concurrent rehabilitation with a view to reducing long-term environmental liability associated with mine closure costs. At the Dudfield operation, 75% of land disturbed by mining activities has been restored to grazing or water storage.
- Where concurrent rehabilitation is not possible, financial provision is made by the Holcim Nature Conservation Trust Fund, which was established to provide for rehabilitation funding on the closure of quarries. Contributions to the fund are assessed on an annual basis. During the year under review fund contributions for member mines exceeded R8 million.
- As a result of its take-over of African Portland Cement, Holcim (Namibia) acquired lands adjacent to the Otjiwarongo factory site and an associated defunct mine. The Namibian Ministry of Mines issued the company with a mine closure certificate, and the land associated with the factory and mine was successfully rehabilitated. Habitats affected range from coastal to Highveld and arid to equatorial.

Operational examples of conservation of heritage sites:

- Holcim (South Africa) has set aside tracts of land for preservation and donated biodiversity-rich habitats, threatened biomes and heritage sites to permanent conservation:
- Approximately 125 hectares of conservation-worthy succulent Karoo land in a threatened biome at Wolvenest in the Western Cape was donated to the World Wildlife Fund in 2005 for inclusion into a new National Park in the Knearsvlakte.
- Holcim (South Africa) owns some 2 000 hectares of limestone Strandveld biome in the Western Cape and has committed itself to the permanent conservation of more than half of this land when authorisation to proceed with a cement-related project on a part of the remaining property is received.
- The Ulco mine has a dedicated conservation area, Grootkloof Conservation, which has an important archaeological heritage.
- The dormant Sterkfontein mine is situated in the Cradle of

Mankind, a natural heritage site. It consists of a unique environment comprising geologic window, the deepest fossil body known in South Africa. This unique cave environment is described as the best in South Africa and possibly the world. The rehabilitation and future use of the site is being evaluated by a multi-disciplinary team and discussions are underway with a leading academic institution, mining authorities and a provincial government for the donation of this archeologically and environmentally-rich site to permanent conservation and academic research.

- Grinaker-LTA Construction was awarded the construction of the Walter Sisulu Square of Dedication in Kliptown, Soweto, which is destined to become a national monument. Existing structures of historical significance are being preserved and renovated during this process.
- Grinaker-LTA was awarded an Urban Renewal Development project in Kalk Bay, which is taking place on an extremely sensitive site as it is in an urban conservation area with historical significance. This has necessitated intensive consultation with communities and authorities. Heritage impact and environmental impact surveys also had to be undertaken to obtain the required approval for the project to proceed.

Emissions, effluents and wastes

Emissions

Aveng operations have measures in place to limit and control emissions into the atmosphere by plant, vehicles and machinery of greenhouse gas, ozone depleting gas emissions, dust and thermal emissions. The objective of these measures is to minimise the potential for deterioration of the quality of the air due to dust or gases from construction operations, and to curtail the emission of odorous substances that are likely to create objectionable conditions for the public.

Electricity purchased from Eskom by the operations of the group is the largest contributor of indirect carbon dioxide emissions. Other greenhouse gas emissions are usually as a direct consequence of the burning of fossil fuels for energy requirements as well as other on-site processes. Improvements to the overall greenhouse emissions of the group are dependent on the discovery of alternative and renewable energy sources.

The group's cement operations are by far the largest producer of greenhouse gases. At Holcim (South Africa) indirect greenhouse gas emissions consisting mostly of CO_2 are emitted from the utilisation of large quantities of fossil fuels, especially coal, and diesel in the heating of kilns, and directly from calcinations of the raw materials utilised in the process. The company currently produces the lowest CO_2 producing cement product range in South Africa and has set stringent future reduction targets.

This year the company received approval from the government to use waste-derived fuels to replace coal to heat its kilns and is undertaking EIAs to evaluate the impacts on the environment and society of these CO_2-neutral waste-derived fuels.

"Aveng operations have measures in place to limit and control emissions into the atmosphere."

Ozone depleting substances such as refrigerants containing CFC and some fire-fighting systems have been phased out of the operations of the Aveng group.

Nuisance dust is a potential issue for most of the Aveng operations, as particulate emissions are created by the steel and allied, construction, mining, quarrying and other activities of the group. Dust measurements are conducted at all operations, and ongoing actions and innovations are implemented to reduce dust, including the installation of continuous emission measuring equipment where necessary.
As most of the group's operations do not give off significant thermal emissions, these emissions are generally not measured. At Holcim (South Africa) continuous emission measuring equipment to measure thermal discharges has been installed on stacks at Dudfield Kilns 2 and 3, Ulco Kiln 5 and Tanga Cement to enable the continuous measurement of NO, NO_2, NO_x, CO, SO_2, NH_3, HCl, O_2, H_2O, total organic carbon (TOC/VOC), benzene, xylene and toluene emissions.
Holcim (South Africa) is the first local cement producer to introduce this capacity. Tanga Cement is the first and only Tanzanian cement producer to conduct annual measurements on 13 heavy metal and PCDD and PCDF emissions from its cement kiln stacks, in compliance with EU standards.
The group endeavours to reduce noise emissions that emanate mostly from its manufacturing plants. Many of the group's original manufacturing plants were established in areas reserved for light to heavy industry. The gradual encroachment of residential areas onto these industrial zones has necessitated the eradication of noise. This is mostly achieved by phasing out old machinery, technology and manufacturing methods. Although modernisation of factories is a costly exercise, it ultimately results in greater efficiencies and cost savings.

Operational examples of the efficient reduction of emissions:

- Fraser & Chalmers Siyakha, a Grinaker-LTA BBBEE enterprise development company, was contracted to fabricate and install piping and mechanical equipment on Sapref's Project LION (Large Increase in Octane Number). The main objective of the project is to build a plant to produce diesel or petrol without the lead component and with reduced sulphur content. This will result in cleaner burning fuels and a resultant drop in pollution.
- Mopani Copper Mines in Zambia awarded Grinaker-LTA a contract for the engineering, design, procurement and management of a 1 150 ton/day sulphuric acid plant as part of a smelter upgrade project. This consists of a gas cleaning section where gas is cleaned and SO_2 is converted into sulphuric acid and stored in acid storage tanks. This project will reduce the SO_2 emissions into the atmosphere.
- Similarly, at the Anglo Platinum Converter Project in Rustenburg, Gauteng, Grinaker-LTA has been contracted to assist with the construction of a new double contact, double absorption section for the existing acid plant

and the upgrading of the existing acid circuit to allow for the higher acid circulation rates. The primary objective of this project is to upgrade the existing contact plant so that acceptable overall acid plant SO_2 emissions can be met.

- At Trident Steel, emissions to air comprise dust created during the laser cutting of steel. This is collected via an extraction system and deposited into sealed bins. In the past, this waste was sold to a client who recycled it. Currently, the company outsources the disposal of the dust to a professional waste disposal company.
- Holcim (South Africa) offers Green Cement, a product range that effectively enables the company to reduce its carbon dioxide (CO_2) generation per ton of cementitious product through the introduction of selected pozzolanic extenders including slag, flyash, silica fume and limestone, which are in themselves waste products generated by other parties. Through the Green Cement product range the company aims to drive down its current CO_2 emissions per ton of cement from the 2002 level of 724 kg of CO_2 per ton of cement to less than 650 kg of CO_2 per ton of cement.
- The use of waste-derived alternative energy by Holcim (South Africa) at its Ulco kiln in Kimberley, Tanga Cement in Tanzania and potentially its Dudfield kilns will reduce reliance on fossil fuels such as coal and diesel and at the same time drastically reduce greenhouse gas and CO_2 emissions.
- Installing emission control equipment at Dudfield Kiln 2 resulted in a 98% reduction in particulate emissions from the unit. In addition, key interventions by Holcim (South Africa) for the Dudfield Kiln 3 upgrade include the replacement of the main burner with a multi-channel low NO_x burner, the substitution of planetary coolers with a highly efficient pendulum grate cooler, and the installation of a pre-calciner and a high-efficiency bag filter. These improvements resulted in numerous environmental benefits including the reduction of NO_x emissions and reduced particle

Waste management: Biomass facility in Australia built for Earthpower Technologies.

"Through the Green Cement Range, Holcim aims to drive down its CO_2 emissions."

emissions from 240 mg per Nm^3 to a world-class standard of 30 mg per Nm^3, making this the lowest particulate emission kiln in southern Africa. Heat consumption is reduced by 18%, thereby reducing coal consumption and associated emissions by 18%.

- Holcim (South Africa) has reduced specific CO_2 generation levels per ton of Holcim cement by 34% from levels recorded in 1990. Over the 2005 period CO_2 per ton of Holcim (South Africa) branded cements reduced by a further 12% compared to the 2004 level.

Effluents

The operations of the Aveng group do not produce many effluent discharges. Where discharges occur, these are mainly into water. During the year under review, none of the group's operations reported any significant effluent discharges to water. Water used in the course of the group's operations is recycled wherever possible and the little that flows back into the environment is treated prior to release and where required is discharged under a valid discharge permit.

In the group's mining operations, tailings are either moved to ecologically non-hazardous sites or are deposited in purpose-designed tailings dams in which all polluted water is trapped and eventually evaporates.
The preservation of potable water is an important group imperative, and water recycling and efficiency is an area of major focus for all operations.

Operational examples of the efficient reduction and disposal of effluents:

- Grinaker-LTA was awarded the contract to re-mine the Segala dump in the Barberton area for gold bullion. The operation requires the removal and treatment of several gold tailings deposits in the flood plain of the Suid Kaap River. Treated material is moved to ecologically non-hazardous sites, and tailings are re-deposited in specially designed tailings dams in which all polluted water is trapped and eventually evaporates.
- Grinaker-LTA constructed the new secondary Effluent Treatment Plant for Mondi Business Paper at their pulp mill in Richard's Bay, KwaZulu-Natal. This consists of an aerobic treatment tank and clarifier and is the largest reservoir of its kind.

Wastes

Aveng recognises that all waste has cost implications, and for this reason the group's activities focus on waste reduction and recycling as a way to improve processes, decrease costs and minimise environmental impact. Recycling also contributes to reducing the consumption of energy and raw materials in line with the group's sustainability policy. Where possible, waste products are recycled including metals, oils, rubber, batteries, paper and biodegradable plastics. Waste materials such as medical equipment, refractories and building rubble that cannot be recycled are disposed of responsibly through incineration or as land fill.

Some of the group operations generate hazardous wastes such as asbestos-containing waste. All plants using asbestos have asbestos registers and must dispose of waste through a licensed contractor. Fluorescent tubes, which contain mercury, are disposed of by licensed agents. Only professional, recognised waste removal agents are used.

Operational examples of the efficient reduction and disposal of wastes:

- The biomass facility in Australia built for Earthpower Technologies by McConnell Dowell highlights a global trend towards innovative waste management and more environmentally friendly forms of energy production. The biomass has the capacity to convert up to 100 000 tons per year of food waste into biogas, which is used to generate electricity, while at the same time producing solid and liquid fertilisers, re-usable clean water and reducing greenhouse and other gaseous emissions.
- Similarly, the use of waste-derived alternative energy by Holcim (South Africa) at its Ulco kiln in Kimberley will assist in the disposal of waste materials such as tyres, rubber, paper sludge, plastics, solvents and industrial tars. In addition to providing an alternative fuel source, this process also addresses the universal problem of waste disposal for non-biodegradable, non-recyclable wastes like tyres and plastic.

At the Wonderwater coalmine, Grinaker-LTA undertakes a number of initiatives to deal with wastes. All used oils and lubricants are collected and recycled. Oil separators are placed at the wash and service bays to prevent contamination of ground water. Programmes are in place to recycle oily rags, used in oil and air filters and fluorescent light tubes.

Product responsibility

The group is not generally engaged in the production of products for the mass market, other than the production of cement by Holcim (South Africa). Detailed brochures on the appropriate and safe use of its cement and other products are circulated by the company, and further information is available on the company's website. Product information is based on tests conducted by the company and by independent organisations such as the South African Bureau of Standards. The company also maintains a fully-fledged technical department. Policies are put in place to reduce or minimise any negative impacts of the operation's products and services. Holcim (South Africa) also actively strives for product innovation, and the Holcim Green Cement product range is currently the lowest CO_2-producing cement product range available in South Africa.

When an Aveng operation is asked to develop a product or service for public use, the operation will perform risk assessments in relation to environmental and other impacts on request of the contracting client as part of the EIA for the project as a whole, and risk assessments will be performed at various stages throughout the life of the project.

Social Impact

Commitment

As a global group, operating in construction and related industries in 29 countries and employing a workforce worldwide of over 28 000 people, Aveng's role as a good corporate citizen is imperative to the sustainable development of the group. Aveng is aware of the needs and expectations of the wider community in terms of the way it conducts its operations, particularly its treatment of both permanent and contract employees and the people of the communities in which it operates. It is committed to the upliftment of all its employees and South African society.

In its operations worldwide, Aveng is mindful of the potential positive and negative impacts it has in the communities in which it operates. Although the group often only works in an area for a relatively short period, it strives to ensure that it leaves the people of each community in which it operates better off than when it first arrived. The group has a positive impact on society through its initiatives to procure labour and services from the community, to transfer skills and experience to the local workforce, to undertake community upliftment projects and often, through the projects that it is involved in, to develop facilities that are of benefit to the community. Through impact assessments and stakeholder communication, the group aims to minimise any negative effect it may have on the communities in which it operates.

Policy, management and performance

The Aveng group sustainability policy incorporates a core set of principles to address social issues, which are similarly implemented in all the underlying operations of the group, as follows. Each operating division is required to report formally to the board of Aveng at least annually on their respective targets and achievements in this regard. These core principles are as follows:

- Aveng is committed to providing a working environment that attracts and retains talented employees by respecting the rights of its employees, offering competitive conditions of employment and providing a safe place to work. Conditions of employment are closely monitored to ensure that they are in line with the legislative requirements of the countries in which the group operates worldwide. Through careful selection, ongoing development, performance-based management and fair reward, every person in the group is encouraged to realise their full potential. Exceptional commitment to the group's core values of integrity, quality, and entrepreneurship are appropriately rewarded.
- Aveng's employment equity policy requires that equal opportunities be offered to all employees. The group seeks to create an environment in which individuals who demonstrate commitment and ability are able to develop their careers free from any form of discrimination. In South Africa, the group is committed to broad-based black economic empowerment and aspires to build a workforce that reflects the demographics of South African society.
- Aveng recognises each employee's right to a safe and healthy working environment and strives for zero risk to employees, contractors, suppliers and clients. Health and safety are paramount and never compromised in the pursuit of any other objective. Wherever it operates in the world, Aveng applies the same high standards of health and safety it employs in South Africa and Australia. The group complies with all relevant legislation, regulations, codes of practice and construction industry standards in the countries in

which it operates. The group aims to improve its health and safety performance constantly.

- Aveng will use its purchasing power with contractors and suppliers to impose strict safety, health, quality and environmental performance criteria, and to ensure that they uphold values such as ethics, employment equity, the training and wellbeing of employees and human rights, including the avoidance of child and forced labour.
- Aveng recognises the right of all its employees to freedom of association, and supports the rights of its employees to join a trade union and to be represented by it for collective bargaining purposes. Each group operation has policies in place to deal with freedom of association and collective bargaining, as well as other procedures such as grievances, retrenchment and disciplinary action that may be required to manage their workforce effectively.
- Aveng recognises that ongoing investment in talent development, skills, training and employee upliftment is crucial to address the shortage of skills in the industry that are vital to the growth of the group and the country. The group views its investment in its own human capital as a strategic initiative that will give it competitive advantages and ensure the long-term sustainability of its business. In the group's operations worldwide, employees are given the opportunity to participate in skills development and training programmes, mentorships, career planning and regular performance appraisals to ensure their own growth.
- Aveng is aware that the long-term prosperity of the group relies on a climate of economic and social prosperity, which is linked to the sustainable development of society. The group is committed to social upliftment and aims to contribute meaningfully to nation building through a corporate social investment programme that has partnering and enablement as its core philosophies. Every year Aveng

The Holcim sponsored Tshimologo hydroponics project near Lichtenburg.

Recognising individuals' right to a safe and healthy working environment.

"The group views its investment in its own human capital as a strategic initiative that will give it competitive advantages."

contributes 1% of the prior year's headline earnings to deserving community investment projects. In addition, many of the group's operations are involved in other charitable projects, infrastructure development and many other initiatives to uplift the communities in which they operate, which involve financial contributions as well as the donation of goods and services and the transfer of skills.

The group has adopted the reporting framework proposed by the Global Reporting Initiative (GRI) as a means to qualitatively report on the organisation's impact on society, including its employees and the public. The group's performance in relation to the core GRI indicators can be found on page 91 of this report.

Ethical conduct

The group's code of ethics is contained in its code of business conduct together with its values statement. This code contains the ethical standards to which the group commits itself.

The group's code of business conduct, as set out on page 14 of this report, is the cornerstone of its approach to sustainable development. Aveng is proud of its reputation for integrity and ensures that this code is entrenched and implemented across all the group's businesses and is continually reinforced through the way it conducts its business operations worldwide.

Aveng employees are expected to avoid any possible conflict of interest in handling group affairs and to perform their duties conscientiously, honestly and in accordance with the best interests of the group and its shareowners. Employees may not derive personal advantage from their position in the group, nor may they acquire any business interest that could divert their energy from group responsibilities. They may not participate in any activity that is potentially in conflict with group interests or which could be perceived to impair their independence, including accepting gifts, hospitality, or other favours from suppliers or potential suppliers of goods or services. Each operation of the group also has its own code of conduct dealing with issues such as conflicts of interest, the receiving of gifts and donations and supplier and contractor relations.

Organisational and individual integrity are core to Aveng's ethical values and the group's code of business conduct is formally committed to annually by the directors of Aveng and its principal subsidiaries. The code of conduct is relayed to employees on a regular basis through various channels of communication. Behaviour that undermines the letter and spirit of the code is reported and dealt with as soon as it becomes known, and action is taken to ensure that the reputation of the group is upheld. Furthermore, Aveng carefully considers its dealing with external suppliers and contractors who do not demonstrate an appropriate level of commitment to ethics and organisational integrity.

Aveng's behavioural values, as set out on page 14, define the group's core ideals and principles. The three values of primary importance to the group and its employees are integrity, quality and entrepreneurship. Integrity is fundamental to the sustainability of the business as it goes to the heart of the group's reputation. Without integrity and a good reputation, the business cannot attract clients, talented employees and quality suppliers and would therefore not survive. Actions by employees that undermine the group's integrity are viewed in an extremely serious light. The group's code of business conduct defines Aveng's own brand of integrity.

The values of quality and entrepreneurship are seen as aspirational values that drive business decisions. By focusing on quality, the group strives to do the finest job possible and to improve its standards continually. At the same time, entrepreneurship values the money-making mindset and sense of ownership necessary to grow the business. Innovation, hard work and success are prized and rewarded.

Human rights

Although the legal protection of human rights varies in the countries in which the group operates, recognition of human rights is entrenched throughout Aveng's operations worldwide. In addition, the group expects its supply chain and contracting parties to observe and promote human rights principles.

Aveng is committed to preventing any form of discrimination based on religious or other beliefs, nationality, gender, age, race, marital status or physical features. Each person's individuality, right to freedom of association and absolute privacy are respected. Aveng abides by the regulations regulating privacy of the countries in which it operates. Personal and business information gained in the course of business dealings is safeguarded and kept private. The group also prohibits the use of child, compulsory or forced labour in any of its operations.

In its local operations, Aveng unequivocally subscribes to the human rights dictates of the South African Constitution and Bill of Rights. Recognition of human rights is entrenched throughout the group in its policies regarding employment equity, non-discrimination and harassment, freedom of association and collective bargaining, industrial relations, training and development, SHE policies, grievance and disciplinary procedures, procurement policies and employment and remuneration policies.

Harassment of any form towards fellow employees, contractors, suppliers, customers or members of the public, including sexual harassment, bullying and violence is viewed in a very serious light and appropriate disciplinary action is taken. Employees are encouraged to report any incidents of harassment to management and may not be penalised or disadvantaged as a result of raising such concerns or complaints. The "Tip-offs Anonymous" hotline may also be used to confidentially report incidents of harassment.

Prevention of crime

At the 2003 World Economic Forum annual meeting, the Engineering and Construction (E&C) governors of the Forum established a task force of member companies to develop anti-corruption principles to guide companies that participate in engineering and construction projects around the world. Aveng became a signatory to the Forum in January 2004.

As a signatory to the E&C charter of the World Economic Forum, Aveng is committed to upholding the principles established by the E&C task force, which require the group to adopt a zero tolerance policy on bribery. As a signatory, Aveng must establish a practical and effective internal anti-bribery and corruption programme based on the E&C Business Principles. In addition, each signatory company is encouraged to establish procedures and systems such as a fraud hotline and whistle blowing facilities to eliminate crime, bribery and corruption within the group. This is also a requirement of the King Code, which calls for companies to introduce mechanisms to combat theft, fraud and other unethical practices.

Within the group, incidents of criminal behaviour centre mostly on the payment of wages, misuse of company assets, theft off sites and theft of fuel. In accordance with its strict code of business conduct, the group does not tolerate unethical payments, corrupt business dealings, or participation in illegal acts, such as bribery or money laundering. In addition, the group does not fund political parties or their candidates anywhere in the world. All employees are expected to abide by the laws of the countries in which the group operates when conducting business on its behalf.

Aveng has introduced strict internal controls and governance procedures of the highest order to discourage criminal activity and safeguard the group. The group's operations also take practical steps to protect the group's assets by employing security guards, locking site offices and making sure valuable equipment is safeguarded. Group funds, property and assets may only be used for legitimate business purposes.
Both Grinaker-LTA and Holcim (South Africa) have taken a stand against fraud, theft, dishonesty and corruption in the workplace, by making use of an outsourced, independently-managed ethics and fraud hotline called "Tip-offs Anonymous". The facility allows employees in South Africa, Botswana and Namibia to report any unethical or illegal behaviour while remaining anonymous.

The hotline acts as both a passive and active tool in the combating of unethical behaviour. It sends a clear message to all employees and associates that there is a good probability that they will be caught if they behave in a manner that is detrimental to the business, and that if caught, they will be prosecuted and/or dismissed. The hotline enforces the group's approach of zero tolerance to crime and unethical behaviour.

Investigations are conducted on tip-offs received and disciplinary procedures are instituted where evidence is uncovered. Procedures are in place for conducting of investigations. The perpetration of fraud by an employee is a serious offence and carries the consequence of summary dismissal and a criminal conviction. Perpetrators will be prosecuted in every incidence irrespective of the quantum involved or the successful recovery of the amount or assets.

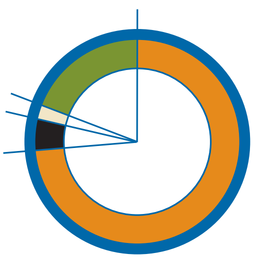
Awareness of the hotline is actively kept alive through activities such as poster campaigns to create awareness, articles in internal newsletters, notification on the intranet, etc. In addition, communication with employees is necessary to make it clear that reporting incidents by means of the hotline is one of the prescribed channels of reporting laid down by the group in terms of the Protective Disclosures Act. This means that informants who use this whistle-blowing channel enjoy the legal protection offered by the Act.

The group plans to increase the availability of "Tip-offs Anonymous" to more employees in more countries in which it has operations.

Workforce

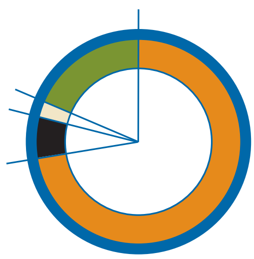
The group is committed to providing a working environment that attracts and retains quality employees by respecting the rights of its employees, offering competitive conditions of service and providing a safe working environment. The skills and experience of Aveng's people are fundamentally important to the sustainability of the group, which is reliant on their dedication, skills and hard work.

Through job creation, Aveng has a significant impact on the societies and the economies of the countries in which it operates. Where possible Aveng procures labourers from local communities in the areas where it is working to ensure that the local populations benefit from its operations. In the year under review, the group provided employment opportunities to 28 986 people around the world, including



Ethnic split 2006

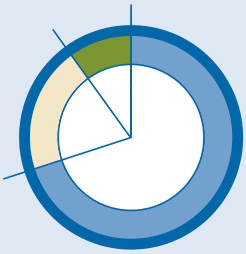
- African 73,7%
- Coloured 5,1%
- Indian 2,1%
- White 19,1%



Ethnic split 2005

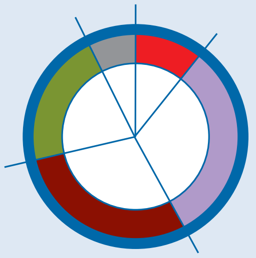
- African 72,7%
- Coloured 6,2%
- Indian 2,6%
- White 18,5%

HUMAN CAPITAL



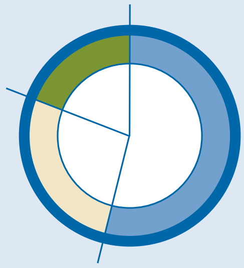
Workforce 2006

- Permanent employees 46,8%
- Contract employees 37,7%
- Labour only subcontract 15,5%



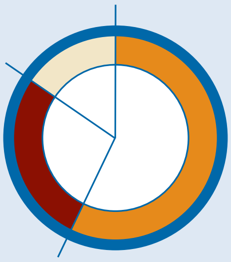
Age split 2006

- Up to 25 years 10,8%
- 26 to 35 years 31,6%
- 36 to 45 years 29,2%
- 46 to 55 years 21,1%
- Over 55 years 7,3%



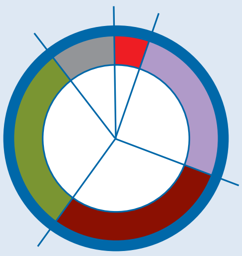
Workforce 2005

- Permanent employees 54%
- Contract employees 27%
- Labour only subcontract 19%



Geographic split 2006

- Southern Africa 57,4%
- Africa & Middle East 27,2%
- Australasia & Southeast Asia 15,4%



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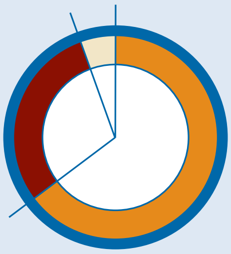

Geographic split 2005

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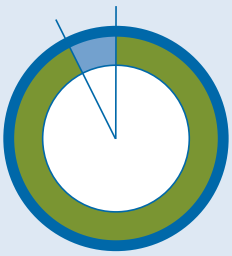
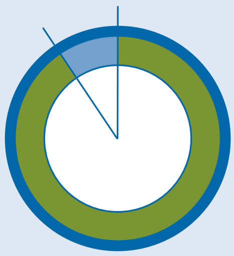


Gender split 2006

- Male 92,7%
- Female 7,3%



Gender split 2005

- Male 90,8%
- Female 9,2%

14 050 South Africans. A snapshot of the workforce as at the end of June 2006 shows that of the total workforce, 13 570 were permanent employees, 10 920 were contract employees and 4 500 labour-only subcontractors.

The conditions of employment for all permanent staff in South Africa are in accordance with the Basic Conditions of Employment Act and are stated in contracts of appointment along with other conditions of employment agreed between the group and the individual staff member. Conditions of employment for scheduled and non-permanent employees are contained in the agreement negotiated between employer and each employee or employee representative body on an annual basis. Group operations in foreign countries adhere to the local laws regulating conditions of employment. Aveng is a people-intensive business with enormous volatility in its workforce requirements, particularly in the areas of construction and mining through the Grinaker-LTA and McConnell Dowell's operations. At any given time, almost half of the group's workforce are limited-duration contract employees or contracted via labour sub-contractors. Grinaker-LTA offers permanent employment to a core team of some 1 500 to 2 000 skilled people.

The flexibility offered by sub-contracting labour allows the group to cost effectively streamline its workforce by increasing or reducing the number of employees or by adjusting its range of skills at any given time to meet the requirements of each individual project. Despite the volatility of the workforce, the demographics of the group's employees do not change meaningfully from one year to the next, as can be seen from the statistical charts on page 139.

Employment equity

Aveng is committed to the principles of employment equity through the maintenance of a philosophy and environment in which individuals who demonstrate commitment and ability are able to develop their careers free from any form of discrimination based on gender, race, age or religion. Equal opportunities are offered to all employees and the group seeks to identify, develop, recognise and reward employees who demonstrate the qualities of integrity, entrepreneurship, loyalty and hard work.

As the group is committed to nation building through redressing historical social wrongs, discrimination is considered permissible within the South African context to meet the government and the group's transformation objectives. Enforcing these objectives will be necessary until the diversity of the South African population is evident at all levels in the group to the extent that racial and gender profiling will be unnecessary.

Aveng is committed to broad-based black economic empowerment (BBBEE) and will strive to build a local workforce that reflects the demographics of South African

"The group seeks to identify, develop, recognise and reward employees who demonstrate the qualities of integrity, entrepreneurship, loyalty and hard work."

society, in line with the Construction Charter. Aveng aims to transform its employee profile at all levels by eradicating any barriers in the work environment that adversely affect opportunities and advancement of black employees, accelerating the training and promotion of black employees and creating a culture that understands and promotes equal opportunities. The group defines black people as including all black, coloured and Indian people.

The group is committed to moving beyond the employment equity targets set by the Construction Charter and has dedicated substantial time and resources to the development and promotion of black staff and other minority and historically disadvantaged groups. Recruitment, staff retention, training, development and internal promotion strategies have been aligned with the group's BBBEE objectives.

Ultimate responsibility for the implementation of the group's employment equity objectives lies with the Aveng board, while executive directors and senior managers are responsible for implementing the group's strategy and achieving the BBBEE targets set by the board. Discretionary elements of remuneration and incentives paid to directors and senior managers are linked to their success in achieving the group's BBBEE objectives in their areas of responsibility in the business.

Aveng fully supports the spirit and intent of the Employment Equity Act and employment equity plans for the group, Grinaker-LTA, Holcim (South Africa) and Trident Steel have been submitted to the Department of Labour. These plans set targets for equitable representation of black personnel in the group's workforce over a period of time and management regularly monitors and reviews each operating company's performance against the targets set. Skill enhancement through structured programmes, on-the-job training and mentoring is given a high priority. These programmes are detailed hereafter.

Although the Employment Equity Act is only applicable to operations in South Africa and does not apply to McConnell Dowell or other international group operations, the principles of non-discrimination embodied in the group's employment equity policy have universal application, subject to the laws of each country concerned. Current performance in relation to the targets set for June 2007 is for employees of Aveng's wholly owned South African subsidiaries, Grinaker-LTA and Trident Steel are as follows:

	% previously disadvantaged in occupational group	
Occupational group	**Actual June 2006**	**Target June 2007**
Legislators, senior officials and managers	14%	18%
Professionals	34%	38%
Technicians and associate professionals	54%	58%

The shortage in the employment market of senior managers with the requisite technical and engineering experience makes it difficult for the group to exceed targets in the top band. Aveng will continue to search for potential candidates, but in the meantime, an increased emphasis is being placed on training and fast-tracking talented black employees who demonstrate leadership potential, aptitude, commitment and ambition.

Remuneration policy and benefits

Aveng aims to provide competitive conditions of service to both its permanent and contract employees. Aveng is committed to providing a working environment that attracts and retains talented employees by respecting the rights of its employees, offering competitive conditions of employment and providing a safe place to work. Conditions of employment are closely monitored to ensure that they are in line with the legislative requirements of the countries in which the group operates worldwide. Through fair reward, performance-based management and incentivisation, employees are encouraged to realise their full potential and are rewarded for their commitment and hard work.

The group provides a wide range of employee benefits beyond those legally mandated. These differ between the operations within the group, as the various business and divisions operate in diverse areas of the world, in often-unrelated market segments and on different contract terms, which makes the standardisation of benefits impractical. Some of the benefits offered to employees across the group include:

- Retirement benefits;
- Disability benefits;
- Medical aid;
- Group life and disability;
- Workmen's compensation;
- Car scheme;
- Motor insurance;
- Travel allowance;
- Site allowance;
- Long-service awards;

Safety is paramount, never to be compromised in the pursuit of any objective.

- Staff uniforms;
- Medical evacuation and repatriation services for employees working in foreign countries;
- On-site clinics;
- Subsidised canteens;
- Employee assistance programmes, including personal loans;
- Study assistance schemes; and
- Education and training.

All of the group's operations offer rewards and incentives for executives and senior employees. These usually consist of market-related salary packages topped up with discretionary bonuses to recognise and motivate excellent performance. Bonuses are set by considering both financial and non-financial factors, with poor performance in both areas resulting in no bonus being paid. Similarly, salary increases are discretionary and are based on merit as well as the financial performance of the group.

Where applicable, each business unit at Grinaker-LTA runs its own site incentive bonus scheme for each contracted project. Bonuses are awarded based on productivity, safety, early completion and financial performance.

Long-term incentivisation for key executives is based on the recommendations of the remuneration committee, and is achieved through the Aveng Share Incentive Scheme where share options are issued at market price and vest over five years.

Aveng group employees received R3,5 billion in the year under review in the form of remuneration, incentive bonuses and employee benefits.

Training and development

Aveng recognises that ongoing investment in its own human capital is crucial to ensure the long-term sustainability of the group. The group views talent development, skills, training and employee upliftment as a strategic business initiative that will meet the following objectives:

- Create a culture of lifelong learning and superior performance throughout the group;
- Give the group competitive advantages;
- Meet the changing needs of the company;
- Maintain and enhance quality of products and services;
- Address skills shortages;
- Attract and develop a more skilled and flexible workforce;
- Maximise employee performance, teamwork and motivation;
- Offer structured career paths to employees;
- Ensure succession planning;
- Fulfill future manpower needs;
- Ensure the safety and effectiveness of all employees;
- Support the economies of the countries within which it operates; and
- Further the objectives of BBBEE in South Africa.

In the group's operations worldwide, employees are given the opportunity to participate in skills development and training programmes, mentorships, career planning and regular performance appraisals to ensure their own growth. The group promotes a culture of maximising individual performance by opening up development opportunities to all staff and ensuring guidance for career advancement and further training. The development of peoples' skills applies to all operations irrespective of the country in which Aveng operates.

In South Africa, training and development programmes are drawn up in line with the requirements of the Skills Development Act and the National Qualifications Framework (NQF). Programmes support the development of a range of skills that will contribute to creating competitive advantages for the group, with the development of future leaders as a key strategic focus area.

Aveng follows a two-pronged approach:

- The group provides broad-based employee training, with programmes ranging from health and safety and multiple-level skills training through to management and leadership training encompassing first level management to senior management courses. The group assists employees who wish to further their education in fields of study complementary to job requirements.
- The group has a strong focus on formal training. This year 138 bursaries were awarded to full-time students studying at tertiary institutions, of which 46% were awarded to black students. A further 205 people are enrolled in apprenticeship or learnership programmes mainly in technical fields of study such as engineering. In addition, the group contributes funding and other resources to CIDA city campus, a university that offers tertiary education to students from disadvantaged backgrounds.

Some of the development opportunities offered by the group include leadership skills, management skills, specific skills training such as quality management, construction skills, diesel mechanics and operator training, health and safety awareness, first aid, HIV/Aids programmes, healthcare programmes, bursaries for formal training, learnerships in line with the Construction SETA (CETA), apprenticeships and internships. In the group's operations throughout the world, on-the-job training is often provided to workers procured from the local population in order to uplift the communities in which it operates by creating employment and transferring skills and experience.

Each year, over 10 000 (2006: 12 000) people, predominantly young black South Africans, benefit from a comprehensive range of employee training initiatives, in addition to the formal development offered by company-supported tertiary training and apprenticeships. For Aveng, this is a crucial investment in human talent and a resource that will be the cornerstone of our continued growth.

Grinaker-LTA has established a number of training centres to assist in combating the skills shortage in the industry and improve the skills of semi-skilled artisans in the workplace. Many of the programmes offered by the training centres are aligned to the CETA's learnership requirements and are designed to improve and refresh knowledge and skills.

Industrial relations

Aveng recognises the right of all its employees to freedom of association and supports the rights of its employees to join a trade union and to be represented by it for collective bargaining purposes.

The group recognises trade unions that have a significant representation amongst its employees. The group enters into agreements with these unions to confirm their status as the collective bargaining representative of their members with the power to negotiate or consult and endeavour to reach agreement in good faith with management on their behalf. The group conducts negotiations and consultations with registered and representative unions at industry, company and workplace level, usually in respect of changes in operational requirements, conditions of employment, wage agreements, health and safety and dispute resolutions.

At any given time, more than half of the employees of the Aveng group worldwide are represented by a labour union. Membership of recognised South African trade unions is set out below:

Union	Membership	% of total South African staff
National Union of Mineworkers	2 230	15,9%
National Union of Metalworkers of SA	1 526	10,9%
Others	2 753	19,6%
Total	**6 509**	46,3%

Each Aveng operation has policies in place to deal with grievances, retrenchment, disciplinary action, freedom of association, collective bargaining and other procedures required to manage its workforce effectively. These policies comply with the requirements of the Labour Relations Act of 1995, and other applicable regulations.

Group operations working in foreign countries adhere to the local laws regulating freedom of association, collective bargaining, industrial relations and union membership.

In the year under review, no legal or illegal strikes took place in any of the operations. However, some employees at Trident Steel participated in two one-day national stay-aways organised by the Coalition of South African Trade Unions (COSATU). During the year ahead, Grinaker-LTA will undertake wage negotiations with employees and trade unions governing the next 2 – 3 years either directly with the representative unions or through the relevant industry bodies as may be applicable.

Occupational health and safety

Standards

Aveng has implemented an integrated management system across the majority of its business operations that addresses and satisfies the requirements of applicable safety, health, environment and quality (SHEQ) legislation and international standards namely:

- ISO 9 001:2000 Quality management system
- ISO 140 01:1996 Environmental management system
- OHSAS/BSI 18001:1999 Occupational health and safety management system
- Occupational Health and Safety Act 85: 1993 (OHSA) (South Africa)
- Construction regulations 2003 (South Africa)
- Compensation for Occupational Injuries and Disease Act (COID Act) of 1993 (South Africa)
- SANS (SA National Standards) (South Africa)

Training: Aveng recognises that ongoing investment in its own human capital is crucial to ensure the long-term sustainability of the group – Group apprentices training centre, Elandsfontein.

“The group regularly monitors and audits its health and safety performance.”

- Mines, Health and Safety Act 29: 1996 (MHSA) (South Africa)
- Minerals Act 50: 1991 (South Africa)
- AS/NZS 4801-Occupational health and safety management system (Australia and New Zealand).

Where appropriate, these standards enjoy certification and are subject to both independent and internal audit by specialised auditors to assess implementation and efficacy. Comprehensive quarterly reports are presented to the respective boards and audit committees.

All of the group’s operations employ one or more SHEQ managers who are responsible for providing the support necessary for the successful implementation of health, safety and HIV/Aids programmes, as well as environmental management systems.

Health and safety

As the majority of Aveng businesses are engaged in operations that are inherently dangerous, safety is of the utmost importance. The group views the health and safety of its employees as one of its most important duties, and believes that a safe working environment makes sound business sense.
The group’s health and safety policy applies to its operations worldwide and complies with the relevant legislation, regulations, codes of practice and construction industry standards of each country in which it operates. The policy aims to prevent or minimise work-related injuries and health impairment by applying international best practice, ensuring the competence of the workforce and providing and maintaining safe operating environments and safe systems of work. The policy provides for the identification of potential health and safety hazards, and the providing of adequate information, training and supervision for all employees. The management system includes specific procedures for the identification, reporting and recording of injuries.

OHS training takes place on induction for all employees and contractors, and again at each site to instill an awareness of the risks of each particular area, site and project. The group offers ongoing health and safety training to empower its employees to take responsibility for their own safety and that of their colleagues in the workplace.

The group sets measurable objectives and targets to quantify their occupational health and safety performance and demonstrates continual improvement. The group aims for top safety management and performance by adopting a target of zero injuries and zero tolerance for safety incidents. During the year under review, the disabling injury frequency rate (DIFR) across the group’s operations once again improved to 0,65 incidents per 200 000 man hours worked for the year (2005: 0,69). The group regularly monitors and audits its health and safety performance and identifies corrective actions to improve performance and progress towards the achievement of a DIFR of zero.

First aid officers are required at all sites and many of Aveng’s operations

Disabling injury frequency rate (DIFR)			
	Manhours	Incidents	DIFR
Grinaker-LTA	79 626 014	206	0,52
McConnell Dowell	12 661 723	25	0,39
Trident	3 448 028	80	4,6
Total	95 735 765	311	0,65

have established on-site clinics to offer primary and occupational health facilities and other wellness programmes to employees, particularly those without medical aid plans. Often on-site clinics are established in conjunction with the contracting client. Where no on-site clinic is available, where possible the group will enter into an agreement with a local clinic to take care of employees while they are in the area. Other healthcare services provided include a range of interventions aimed at preventing infectious diseases such as HIV and Aids, tuberculosis, cholera and malaria.

As part of the group's procurement and recruitment policies, it evaluates DIFR ratings as well as other SHEQ issues when appointing sub-contractors and sub-contracted labour. Sub-contractors are required to have health and safety accreditation as well as good DIFR ratings. This has been an important component of the group's major drive to reduce its health and safety risks during the year under review. As the group comes under increasing pressure from its contracting clients to use local labourers from the communities in which it operates, it must ensure that this local workforce does not add to health and safety risks and endanger other employees, suppliers or members of the public. This is achieved through upskilling of the individuals to meet the strict SHEQ requirements and standards of the group as well as the contracting client.

During the year, Trident Steel made significant progress in its safety, health and environment risk assessment at the Roodekop site as part of the groundwork in applying for ISO 14 001 certification. Roodekop will be the initial site for the rollout of Trident's new SHE policies, and the methodology used there will be employed across the remainder of the company's branches. Training in the new policies will be offered to all employees. Once the Roodekop site is ISO 14 001 certified, Trident Steel will implement ISO 14 001 compliance across the remainder of its operations.

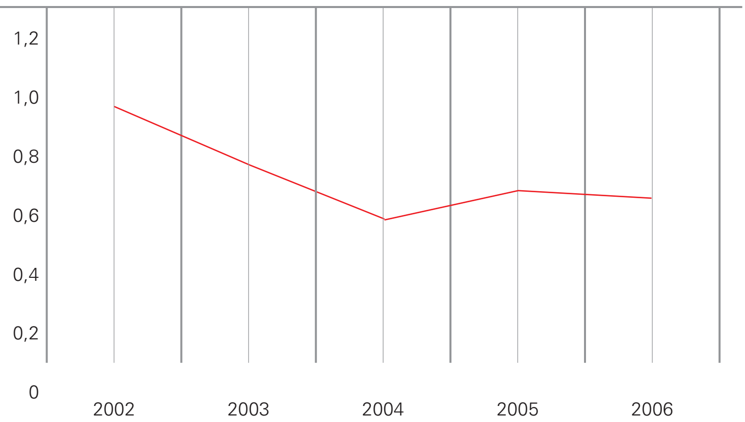
Public health and safety

Across all the group's operations, client and consumer health and safety is a top priority. The group's goal is the elimination of injuries and illness to employees as well as contractors, suppliers, client representatives and the public. Consumer health and safety is most relevant to the Holcim (South Africa) business, which sells cement products to the public. Holcim (South Africa's) cement plants are ISO 9 000 compliant and use ISO management systems and compliance mechanisms to ensure safe use of its products. Holcim

(South Africa) monitors and improves on the quality and safety of its products on an ongoing basis. Technical personnel assess any potential impacts on a regular basis, including negative impacts that may arise as a by-product of the manufacturing process, and every effort is made to reduce known impacts.

Product labelling and material safety data sheets comply with the South African Bureau of Standard's (SABS) approved requirements and format. Material safety data sheets for all Holcim (South Africa's) cement products are available upon request to sellers and buyers of their products. Information for the safe use of cement is printed on all product packaging and the company produces and widely circulates detailed brochures on the appropriate and safe use of its products. Additional information is made available through the company website. All product information is based on tests conducted by the company and by independent organisations such as the South African Bureau of Standards (SABS). No instances of non-compliance with any regulation concerning product information and labelling, nor any penalties or fines for any breaches were recorded by the group during the year under review.

Disabling injury frequency rate



Awards and highlights

Every year the group achieves some impressive safety awards. These are some highlights from the year under review:

Holcim (South Africa)

- Green Pyramid status was awarded to Holcim (South Africa) after the Holcim Group undertook a comprehensive occupational health and safety audit of the South African operations and found it to be 86,3% compliant;
- The Ulco plant received special recognition from Ministerial level for its safety achievements;
- The Aggregate and Sand Producers Association of South Africa (ASPASA) SHE audit in October 2005 showed 96% compliance and ASPASA Showplace awards were handed to several aggregate quarries around the country; and
- The readymix operations in KwaZulu-Natal were awarded the South African Readymix Association's Gecko award for health and safety.

Grinaker-LTA

- Grinaker-LTA Building Cape's Port Elizabeth division achieved a "highly commended" award in the national MBA safety competition for the construction of the Pansy Cove apartment blocks in Mossel Bay;
- Grinaker-LTA Mining Contracting has been mining coal at the Dorstfontein Coal Mine since 2002. Dorstfontein was rated as the safest colliery in South Africa by the Department of Minerals and Energy during the year;
- Grinaker-LTA Mining Contracting achieved a NOSA 5-star rating for its safety record in the year under review. Compared to four year's ago, the mine's lost time injury rate has been reduced from 12 to below one;
- Grinaker-LTA M&E's Oil and Gas operating division in Nigeria recently completed its East Area project for Technip and ExxonMobil to build offshore pipe bridges. This project was awarded the Dries Niemandt Snr. annual Health, Safety and Environmental Award for completing the project in1,3 million man hours without a single lost time injury;
- Grinaker-LTA Building East received first place awards in the National MBA Safety Competition 2005 in the Plants and Yards and R200 million + categories. They also achieved third place in the R50-R200 million category.
- Once again, a number of sites achieved the outstanding accomplishment of a million disabling injury free-man-hours.

McConnell Dowell

- The Australian Federal Government Department of Employment and Workplace Relations certified McConnell Dowell Constructors (Australia) as having met the requirements of the Australian Government Building and Construction Occupational Health and Safety Accreditation Scheme.

HIV and Aids

As Aveng's operations are predominantly labour driven, the

Safety award winners: Pansy Cove apartments, Mossel Bay.

The ExxonMobil East Area offshore project in Nigeria.

“The group’s South African operations have developed meaningful and relevant plans to address the challenges posed by the HIV and Aids pandemic.”

group is mindful of the devastating effect that HIV and Aids may have on the economic and private lives of its employees and their families, the ability of the group to perform, and the well-being of society as a whole. The Aveng board has an approved HIV and Aids policy and the group’s South African operations have developed meaningful and relevant plans to address the challenges posed by the HIV and Aids pandemic.

Trident Steel and Grinaker-LTA have developed HIV and Aids programmes in conjunction with Lifeline Southern Africa, which aims to:

- Support and encourage all measures and initiatives aimed at minimising the impact and spread of HIV/Aids;
- Educate employees on basic HIV/Aids issues;
- Facilitate changes in sexual behaviour;
- Encourage employees to take responsibility to prevent infection;
- Distribute condoms to assist with prevention;
- Prevent discrimination against employees based on their HIV/Aids status and ensure that the rights of employees living with HIV/Aids are protected;
- Create an environment in the workplace conducive to dealing constructively with the situation;
- Encourage employees to know their HIV/Aids status by volunteering for testing and providing pre- and post-test counselling;
- Assist employees to access appropriate heath services for anti-retroviral therapy (ART) and treatment; and
- Operate a 24-hour, 365-day call centre to counsel employees and their families.

Fully functional committees, peer educators, voluntary counselling and testing facilities have been established in over 20 locations. VCT includes pre-testing and post-testing counselling by suitably trained counsellors. Lifeline maintains the anonymity of employees who undergo voluntary testing, and employees are not obliged to disclose their HIV and Aids status or the results of any VCT provided by the group. Lifeline works closely with those employees that tested positive over a ten-week period and where necessary places them on the government anti-retroviral programme. To date, the uptake in voluntary counselling and testing (VCT) amongst employees has been extremely low.

The HIV/Aids policy and its contents are communicated to employees through the Intranet, internal magazines, bulletin board or employee representatives who are trained on the implementation of the programme.

During the year, all employees at Trident Steel attended HIV and Aids awareness training presented by Lifeline trainers, which was conducted in employees’ language of choice. Peer educators within the company were nominated and trained.

To date, no employees at Trident Steel have taken up the offer of VCT. The company hopes that this status quo will change once peer educators counselling comes into effect. For this reason, the company has not calculated its HIV and Aids prevalence rates, but relies on future impact studies based on national

surveys for prevalence rates.
In addition, the company's client, Total Coal, financed and initiated a HIV and Aids clinic at the Dorstfontein Coal Mine. Grinaker-LTA Underground Mining Contracting manages the clinic in conjunction with the client.

Grinaker-LTA's wellness programme in conjunction with Lifeline has been operational since 2003. On World Aids Day in December last year, the company conducted VCT sessions to assess and reduce the impact of HIV and Aids on employees by encouraging them to know their status so as to assist them in accessing appropriate health service providers. Trained Lifeline counsellors conducted the VCT, and 98 employees at the Grinaker-LTA head office in Jet Park across all occupation levels volunteered to be tested on the day. Of these, six tested positive. The group is planning further VCT sessions at Jet Park and various other sites in the year ahead.

During the year, HIV and Aids training was conducted for internal peer counsellors and educators to assist them in their confidential counselling of staff affected by HIV and Aids.

Grinaker-LTA has not conducted a HIV and Aids prevalence rate exercise, and is unable to supply an accurate prevalence rate due to the limited number of VCT tests carried out. However, the company believes that current published infection rates are more than adequate for its planning purposes.

Using the Metropolitan Employee Benefits estimation of 15% prevalence in the construction industry, which is close to the percentage obtained from its limited voluntary testing since the inception of its programme, Grinaker-LTA has estimated the costs associated with the impact of HIV/AIDS for recruiting, training and re-training replacement staff. They estimated the financial impact of the pandemic on the company is currently is R2.5 million, and will worsen in future. This estimate excludes financial losses due to absenteeism, AIDS fatigue and attendance at funerals. Conservative estimates of lost time due to mortality and morbidity (direct and indirect) are estimated at 8 000 person-days at a cost of approximately R2 million rand. Its likely that if loss of production and other factors were estimated, this figure would more than double.

In addition to the above, the current direct and indirect costs of HIV and Aids training and programme implementation at Grinaker-LTA are estimated at R5 million. This amount will naturally increase with the progression of the pandemic and will probably reach R10 million by 2008. During the year under review, Holcim (South Africa) launched a low-cost medical scheme in an effort to address affordable access to medical aid benefits inclusive of treatment for HIV. The company also re-launched its Employee Assistance Programme to offer wellness programmes and create greater awareness of the support provided by the company and the medical scheme for HIV and Aids-positive patients. Support is also provided via a telephone helpline, which is open 24 hours a day, 365 days a year.

Through Asiphephe, Holcim (South Africa's) health and safety initiative, new wellness and HIV and Aids policies have been finalised and will be implemented in the new financial year. The company has committed R4,2 million to subsidise employee contributions to the newly-launched low-cost medical scheme for employees. Currently, employee uptake has resulted in R2,3 million of this amount being spent. In addition, the cost for the Employee Assistance Programme is R420 000 per annum. A quote of R1 million per annum has been obtained to implement a comprehensive HIV and Aids programme.

Aveng's international operations are encouraged to implement appropriate programmes to deal with the HIV/Aids pandemic in line with the legislation of the countries in which they work. McConnell Dowell reports that currently exposure to HIV and Aids in the Australian construction industry is limited. Nevertheless, the company is mindful of the risks of exposure in the current social environment and various controls are in place to identify any risks to its business.

Employee communication

Across the Aveng group of operations, management regularly communicates and consults with its employees on matters of mutual interest.

All of the group's operations have some form of a formal employee handbook containing basic conditions of employment, codes of acceptable business conduct, disciplinary codes and grievance procedures. New employees are made aware of the conditions of employment contained in these handbooks on induction. Throughout the group, the handbook is made available in a variety of different ways, such as hard copies, through the human resources department and union representatives and on the Intranet. In some operations, basic conditions of employment codes are displayed on notice boards.

Grievance and disciplinary procedures are accessible to all employees in hard copy or on the intranet. All employees, regardless of whether they are permanent staff, labour-only sub-contract or labour-broker employees are subject to the same disciplinary code and grievance procedures. Grievance and disciplinary procedures are applied consistently and fairly to all employees regardless of their status. The procedures and policies clearly lay out the various types of disciplinary measures that may be applied in order of severity such as verbal warnings, written warnings, final written warnings and dismissal and also give guidelines on penalties applicable to each offence based on severity, although each case is treated on its merit. Furthermore, the rights of employees are clearly explained such as the right to appeal and the right to refer the matter to the Commissioner for Conciliation, Mediation and Arbitration (CCMA).

Other issues such as the group's code of conduct and business principles, the company's financial performance, health and safety policies, whistle-blowing, training programmes and HIV/Aids programmes are communicated to employees through various channels such as staff meetings, bulletin boards, toolbox meetings, the Intranet, internal newsletters, e-mail, corporate videos, performance evaluations and site-specific safety training and videos. Alternatively, employee representatives such as peer educators and shop stewards assist in communications between management and employees. In addition, formal joint health and safety committees have been established comprising management and worker representatives. Most employees are represented by these committees.

Where literacy levels of employees are low, structured induction and orientation programmes are held to communicate on issues such as conditions of employment, discipline and grievances, health and safety and company rules and regulations. When required, translators are used at some meetings with unions and formal presentations.

Corporate social investment

Commitment and management

Aveng is aware that the creation of wealth, facilitated by the success of its operations, brings broader responsibilities to the communities it serves and within which it operates. The long-term prosperity of the group relies on a climate of economic and social prosperity, which is linked to the sustainable development of society. For this reason, Aveng recognises that it is not sufficient merely to create employment opportunities; it must also assist in wider social upliftment and contribute to nation building through a social investment programme that has partnering and enablement as its core philosophies.

Aveng is aware of the needs and expectations of the wider community in terms of the way it conducts its operations, and hopes to meet these through its corporate social investment programme. Through these initiatives, Aveng strives to demonstrate that the group is not harming but enhancing society, and is creating a business for future generations of South Africans.

Every year Aveng contributes 1% of the prior year's headline earnings to deserving community investment projects. This money flows to the Aveng Community Investment Trust, which manages the group's social investment initiatives.

The Aveng Community Investment Trust was established as a result of the equity participation deal between Aveng and the Qakazana Investment Holdings (Pty) Limited as detailed on page 105 of this report. The initiatives of the trust focus primarily on education and job creation

CSI focus on education: Graduation day at CIDA.

"In 2006, Aveng spent R13,2 million to finance a range of community projects and infrastructure development initiatives in South Africa. This compares to expenditure of R4 million in the previous year and equates to 3,6% of headline earnings of the 2005 year."

initiatives principally for the benefit of black individuals and communities within the broader construction industry.

Expenditure

In 2006, Aveng spent R13,2 million to finance a range of community projects and infrastructure development initiatives in South Africa. This compares to expenditure of R4 million in the previous year and equates to 3,6% of headline earnings of the 2005 year.

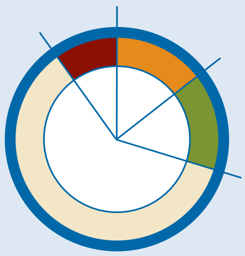
Headline earnings for the year to June 2006 were R603,1 million, which amounts to an allocation of R6,03 million to CSI expenditure for the 2007 year.

This investment was focused on the following areas:

Projects

Group initiatives

Aveng focuses on education, infrastructure development and community upliftment within South Africa, where unique areas of involvement can be identified and



Investment areas

- Tertiary and primary education 14,7%
- Adult education 15,2%
- Infrastructure development 60,2%
- Other 9,9%

where the group can make a meaningful impact. The success of the group's initiatives is measured in terms of direct benefit to the community. The bulk of the group's social investment funding is allocated to CIDA city campus, the National Business Initiative and the Business Trust and the Wildlife Forum.

In 2005, Aveng, together with Grinaker-LTA, Holcim (South Africa) and Trident Steel made a five-year commitment to donate funding as well as other resources and skills to the CIDA city campus in Johannesburg. CIDA is a university offering inexpensive tertiary education to students from disadvantaged backgrounds.

The group's commitment to CIDA includes a mentorship programme for top-performing students who are interested in careers in the construction, engineering and mining industries. The mentorship programme is a training ground for potential employees for the group, and students who perform well may be offered a career with one of the Aveng businesses.

CIDA campus has proven to be an enormous success in educating and enriching the lives of committed and intelligent black students who would otherwise not have access to tertiary education, and has inspired the establishment of similar campuses in other cities. The students at CIDA are extremely fortunate to have excellent teachers at CIDA, who tirelessly dedicate their time and energy to the upliftment of the students in their care, and make our investment in them a worthwhile and gratifying initiative.

In line with Aveng's CSI focus on education, the company also supports TRAC South Africa, an organisation with a mission to encourage and enable school learners to enter careers in science, engineering and technology. Aveng is sponsoring a TRAC mobile laboratory, which will be taken to schools in areas surrounding selected Aveng sites. There, formal presentations and tutorials involving learners and workshops for educators, to improve capacity and skills development in science education, will be conducted.

The Aveng group endorses the objectives of the National Business Initiative and the Business Trust to create job opportunities in South Africa and increase the opportunities for individuals to find employment through training and skills development. The group believes that these initiatives by the business community deserve the support of all South African companies and foreign subsidiaries operating in the country.

Aveng is participating together with other industry partners in the NBI's college Industry Partnerships Programme which focuses on college-industry partnerships to assess outstanding policy challenges and implementation of the National Skills Development Strategy through the Further Education and Training Sector. The input to the programme includes funding of a paid consultant to work with the NBI to develop a proposal, plans and programme options for the building and construction industry programme for the new National Certificate Vocational. This will then develop into a long term partnership with two scheduled colleges, the DOE, provincial DOE's and the industry partners. The input from the industry partners will include time allocated to overall co-ordination of the project, input into the college steering committees, input into tuition through vetting of learning material or technical assistance to lectures as appropriate, bursaries and assistance with the provision of experimental training and employment for selected students.

As a group-wide initiative, Aveng supports the World Wildlife Fund (WWF) as part of its corporate social investment strategy. WWF is the world's largest privately financed conservation organisation, working in more than 100 countries to conserve the diversity of life on earth. WWF directs its conservation efforts toward three global goals: saving endangered species, protecting endangered habitats and addressing global threats such as toxic pollution, over-fishing and climate change.

Initiatives by individual operations
Individual operations within the Aveng group also undertake social investment projects over and above those managed by the Aveng Community Investment Trust, which generally focus on the upliftment of local communities.

Trident Steel continued with its undertaking to the Ekurhuleni Metropolitan Municipality to assist with the infrastructural development of the Greater Roodekop area in Germiston where its manufacturing operations are based. A committee comprising the Ekurhuleni Metropolitan Municipality, KPMG and Trident Steel ensures that donated funds are responsibly applied to the benefit of the Roodekop community.

Trident Steel also sponsors the READ Educational Trust, a literacy programme, which equips schools with the knowledge and skills to train and develop their teaching staff and provides literacy programmes to meet the performance standards of the Department of Education. The company provided R202 000 in funding to READ during the year and has undertaken to similarly support this programme in the year ahead.

Trident Steel also donated R40 000 to the Kathorus training centre to assist with educational programmes to improve the maths, English and science grades of matric scholars. The Living in Hope (Aids) Feeding Scheme also received a donation of R60 000 and the Wildlife and Environment Society of the East Rand was given a R50 000 contribution.

The corporate social investment initiatives of Holcim (South Africa) give preference to projects that are in close proximity of its mining and quarrying operations and that fall within its focus areas of education, capacity building, job creation, HIV and Aids and economic development.

The company either initiates projects in collaboration with local community stakeholders or local government or supports projects that are based on solid project proposals and business plans and that have the potential to be sustainable.

Other than its ongoing support of the Aveng Community Investment Trust, Holcim (South Africa) contributed approximately R2,75 million to other individual initiatives, most of which involved non-core infrastructure development, training of labour and general welfare and upliftment of communities. Beneficiaries of these projects are situated throughout South Africa and include amongst others the Tshimologo Trust, Dudfield School, Kutlwanong, Sparrow Village, PPC Community Church, Borakanelo Trust, East London Aquarium, Vissershoek School, Copesville Schools and Tsumeb TOV Organisation.

Examples of skills training for labour included the Boikhutso Concrete project, Tidimalo Concrete Project and Longlands Electrical Training. Where possible skills development initiatives are embarked upon in collaboration with local municipalities with the aim of linking people that have been trained with development programmes of local municipalities. There were a number of these initiatives during the year, two examples of which are training in brick making at Lichtenburg in conjunction with setting up a production unit to supply bricks for a RDP Housing development, training at Delportshoop in concrete wet casting in conjunction with manufacturing kerbstones for the municipality, etc.

Australian subsidiary, McConnell Dowell, undertakes projects to uplift individuals in the communities in which it operates. Candidates from the local indigenous community are identified for training and employment after consultation with community leaders. In addition, various other fundraising efforts were made through the use of company resources during the year. Specific foundations supported include the Cancer Council and the Royal Children's Hospital, along with many smaller schools and groups in the local areas. The company will continue to support these causes in the next year.

Outside of its commitment to contribute to the Aveng Community Investment Trust, Grinaker-LTA has made a three-year commitment to donate R250 000 per annum to the Civil Engineering and Architecture faculties at the University of the Witwatersrand (Wits). The funds will be used for new equipment and upgrading of the laboratories. A further R250 000 per annum is being donated to Thembeka School in Nelspruit in conjunction with Wilson Bayley Holmes and the local government, amounting to a joint investment of R1 million, to upgrade facilities at the school.

Grinaker-LTA was awarded a project to build 597 houses in Heidelberg. As part of this process, they built and donated an 80 m² building, which will ultimately function as a clinic for the area. Along with the sub-contractors on the housing project, Grinaker-LTA managed to secure most of the materials used for the clinic by way of donations.

Business units within the Grinaker-LTA operation undertake some of their own social investment initiatives. The Manufacturing Operating Group makes donations to Wits to fund research and

TRAC staff members with the Aveng sponsored science trailer.

development that is relevant to their business.

The company also becomes involved in projects on its operating sites, for example at the Dorstfontein mine, an innovative greenhouse vegetable farm was established for the benefit of HIV-infected workers. This has grown in size to a 3 000 m^2 commercial-scale fresh produce grower.

Individual group operations throughout the world are regularly involved in smaller ad hoc projects in the communities within which they are working. Aveng does not account for all these projects as they are too vast, often not formally reported on and generally involve employee volunteering. These projects generally contribute resources, skills and time to assist with non-core infrastructure development, skills transfer, HIV/ Aids awareness, basic health initiatives, education and the general upliftment of local communities. Employees are encouraged to offer support to the local communities in which the company works. The group encourages volunteers to train as HIV and Aids counsellors to assist other staff members.

Average capital employed	Average of total shareholders' funds, minority interests and all interest-bearing debt.
Average ordinary shareholders' funds	Average of total shareholders' funds as reflected on the balance sheet including the equity component of subordinated debentures.
Cash flow per share	Cash flow from operating activities divided by the total number of shares in issue.
Cash and cash equivalents	Cash on hand, deposits held on call with banks, investments in money market instruments and short-term bank borrowings, excluding current portion of non-current borrowings.
Current ratio	Current assets divided by current liabilities. Current liabilities include short-term borrowings and interest-free liabilities other than deferred taxation.
Diluted headline earnings and earnings per share	Headline earnings plus the after-tax cost of the debenture interest divided by the sum of the weighted average number of shares and debentures in issue and the exercisable share options.
Dividend cover	Headline earnings per share divided by dividend per share.
Dividend yield	Dividend per share expressed as a percentage of the closing share price.
Earnings yield	Headline earnings per share expressed as a percentage of the closing share price.
Ebit	Operating profit before amortisation and non-trading
Ebitda	Operating profit before depreciation
Effective tax rate	Taxation as reflected on the income statement less any tax in respect of non-trading items divided by income before goodwill and non-trading items less income from associates and joint ventures, expressed as a percentage.
Headline earnings	Earnings per the income statement, adjusted for the specific items detailed in Note 21 to the financial statements.
Headline earnings and earnings per share	Headline earnings and earnings per share divided by the weighted average number of shares in issue.
Interest-bearing debt	Interest-bearing borrowings including the short-term portion of long-term borrowings.
Interest cover	Operating income including associated and joint venture earnings divided by net interest paid.
Liquidity	Number of shares traded, divided by the number of shares in issue.
Net asset value per ordinary share	Total ordinary shareholders' funds divided by the total number of ordinary shares in issue.
Net cash generated by operations	Cash generated by operations plus or minus decreases or increases in working capital movements.
Net debt to equity	Interest-bearing debt less cash divided by total shareholders' funds.
Percentage of market capitalisation traded	Value of shares traded divided by closing market capitalisation.
Return on average capital employed	Income before interest paid, taxation, amortisation of goodwill and non-trading items including income from investments and share of associate companies' retained earnings as a percentage of average capital employed.
Return on equity	Headline earnings as a percentage of average ordinary shareholders' funds.
Revenue per employee	Revenue divided by the number of employees.
Segmental liabilities	Trade and other payables.
Segmental assets	Property, plant and equipment, goodwill, inventories, trade and other receivables.

Contents

The annual financial statements and group annual financial statements which appear on pages 163 to 218 were approved by the directors on 8 September 2006 and are signed on their behalf.

RB Savage
Chairman

8 September 2006

C Grim
Chief Executive Officer

8 September 2006

Report of the independent auditors

To the members of Aveng Limited

We have audited the group annual financial statements of Aveng Limited set out on pages 163 to 218 for the year ended 30 June 2006. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Audit opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company at 30 June 2006, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

Ernst & Young

Ernst & Young
Chartered Accountants (SA)
Registered Accountants and Auditors

Johannesburg
8 September 2006

Certificate of the company secretary

I, the undersigned, GJ Baxter, in my capacity as company secretary, certify that:

- the company has lodged with the Registrar of Companies all such returns that are required of a public company in terms of the Companies Act 1973, as amended; and
- all such returns are true, correct and up to date.

GJ Baxter
Company secretary

Morningside
8 September 2006

Business of the company

Aveng Limited is a South African registered and listed company, included in the Heavy Construction – Construction and Materials sector of the JSE Limited, with interests in construction, steel beneficiation and cementitious products. The company does not have a holding company. Primary subsidiaries include Grinaker-LTA Limited, Trident Steel Holdings (Proprietary) Limited and Aveng Australia Proprietary Limited. The group also holds a minority stake in Holcim (South Africa) (Proprietary) Limited. An organisational chart of the group, detailing its primary subsidiaries and associated interests may be found on pages 8 and 219 of this annual report. Details of directors' interests at 30 June 2006 are detailed in note 30 of this annual report.

Directors' responsibilities relating to annual financial statements

It is the directors' responsibility to prepare annual financial statements that fairly present the state of affairs, the results of operations and cash flows of the company and of the group. The external auditors are responsible for independently reporting on these annual financial statements.

The annual financial statements set out in this report have been prepared on a historical cost basis except for the restatement of certain financial assets and liabilities to fair value. They are prepared in accordance with International Financial Reporting Standards (IFRS) and are based on appropriate accounting policies which have been consistently applied, unless otherwise indicated in the notes to the financial statements. The annual financial statements have been prepared on a going concern basis. The directors have no reason to believe that the businesses of the group will not be going concerns in the year ahead.

To fulfil their responsibilities, management maintains adequate accounting records and has developed, implemented and continue to maintain systems of internal financial controls.

The company and its subsidiaries' internal financial controls and systems are designed to provide reasonable but not absolute assurance as to the integrity and reliability of the annual financial statements and to adequately safeguard, verify and maintain their assets. These controls are monitored throughout the group on a continuous basis. Nothing has come to the directors' attention to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

More detailed information in respect of the board's mechanisms for continual review of the controls and risks are set out in the corporate governance section of the annual report on page 80.

Financial

The results of the group's operations for the year are set out in the income statement on page 179.

Details of the movement in issued share capital and reserves are provided in the statement of changes in equity on page 180.

The segmental report is set out on page 182.

The consolidated annual financial statements of the group are set out on pages 163 to 218 and the annual financial statements of the company are set out on pages 208 to 218.

Details of earnings and the dividend declared are provided on pages 1 and 179.

Accounting policies

The annual financial statements are prepared on the underlying assumptions of going concern and accrual as laid down in the framework for the preparation and presentation of financial statements – issued by the International Accounting Standards Board.

The company's accounting policies are subjected to an annual review to ensure continuing compliance with International Financial Reporting Standards (IFRS).

Investments

Information regarding the company's interest in subsidiaries, associates, joint ventures and other investments is given in separate annexures on pages 218 to 220.

Share capital

Acquisition of shares by the Aveng Limited Share Purchase Trust (the "trust")

The trust did not retain any shares purchased from participants in terms of the rules of the scheme during the year under review. Accordingly no costs have been charged to the share premium account in the group's consolidated annual financial statements. The trust is consolidated into the group's results for reporting purposes.

Corporate bond

During the first quarter of 2005 the company launched an offering of guaranteed convertible bonds to the value of R1 billion due 2012 (the "bonds"). The purpose of the offering was to use the proceeds arising from the subscription for the bonds to refinance the company's existing, predominantly short-term debt. The decision to substitute existing debt by the bonds was driven by the then attractive financing opportunities available in the international convertible bond market. The bonds mature in 2012 and carry a coupon of 6,125% per annum. Interest is payable to holders semi-annually in equal instalments.

Directorate

The following directorate changes have taken place since the last report:

HDK Jones	Retired 31 March 2006
WE Lucas-Bull	Resigned 31 March 2006
AWB Band	Appointed 1 July 2006
MJD Ruck	Appointed 4 August 2006

Directorate

Retirement by rotation and re-election

In terms of the company's articles of association, Ms L Gcabashe and Messrs VZ Mntambo, RB Savage and BP Steele retire by rotation at the forthcoming annual general meeting. Being eligible, they offer themselves for re-election. All these directors are non-executive.

In terms of the company's articles of association, Mr AWB Band and Mr MJD Ruck, who are non-executive directors, retire at the forthcoming annual general meeting but being eligible, offer themselves for re-election.

Increase in directors' fees

An ordinary resolution is being proposed to increase the fees paid to directors by 7% with effect from 1 October 2006. The effect of the resolution will be to increase by 7% the fees currently payable to each director rounded to the nearest R1 000. The table below details the proposed individual fees by appointment.

Directors' fees		2006 R	2007 R
Audit Committee	– Aveng Limited	**85 000**	91 000
	– subsidiaries	**27 000**	29 000
Board chairman		**60 000**	64 000
Deputy chairman		**45 000**	48 000
Board fee	– Aveng Limited	**109 000**	117 000
	– subsidiaries	**109 000**	117 000
Chairman fee	– nomination committee	**10 000**	11 000
	– remuneration committee	**10 000**	11 000
Nomination committee fee		**16 000**	17 000
Remuneration committee fee		**16 000**	17 000
Tender risk evaluation committee fee		**22 000**	24 000

The fees payable in respect of executive directors are waived.

Material shareowners

The beneficial owners of 5% or more of the issued ordinary shares in the company at 30 June 2006 were:

Shareowner	Number of shares	%
Public Investment Corporation	70 968 292	17,92
Old Mutual Life Assurance Company Limited	39 462 335	9,95
Liberty Life Association	25 686 301	6,48

The number of shares in the company held by The Aveng Limited Share Incentive Trust at the year-end was 6 910 930 (2005 – 6 910 930) comprising 1,74% of the issued share capital of the company.

The non-public shareowning in the company at 30 June 2006 was 20,24% (2005 – 24,38%).

An analysis is shown on page 221.

Basis of preparation

The financial statements have been prepared in accordance with the historical cost convention, and in the restatement of certain financial assets and liabilities to fair value.

The consolidated financial statements are presented in South African Rand and all values are rounded to the nearest thousand (Rm) except when otherwise indicated.

Statement of compliance

The consolidated financial statements of Aveng Limited and all its subsidiaries have been prepared in accordance with the International Financial Reporting Standards (IFRS).

Changes in accounting policies

The accounting policies adopted are consistent with those adopted in the previous year, with the exception of the adoption of IFRS 2 Share-based payment.
The effective date of the standard was for accounting periods beginning on or after 1 January 2005.
The principal effects of adopting the standard are discussed below.

IFRS 2 'Share-based Payment'

The accounting policy for share-based payment transactions is described in more detail under the heading Share-Based Payment. The main impact of IFRS 2 on the Group is the recognition of an expense and a corresponding entry to equity for senior executive and employees' share options and the recognition of an expense and a liability for cash-settled share options.

The Group has applied IFRS 2 retrospectively. As a result all liabilities arising from share based payment transactions existing at 1 July 2005 has necessitated a restatement of comparative information and opening retained earnings as at 1 July 2004.

The effect of the revised policy has decreased consolidated current year profits by R18,5 million (net of tax R13,1 million) (2005: R57,4 million (net of tax R40,8 million)) due to an increase in the employee benefit expense included in overhead expenditure. A liability for share appreciation rights of R107,9 million (2005: R89,7 million) is carried in the balance sheet.

The effect of the revised policy due to the adoption of IFRS 2 on basic and diluted EPS is as follows:

- For the 2006 year a decrease in basic earnings per share by R0,03 (2005: R0,10) to 151,0 cents.
- For the 2006 year a decrease in diluted earnings per share by R0,03 (2005: R0,09) to 141,5 cents.

Basis of consolidation

The group consolidated financial statements include the results and financial position of Aveng Limited and its subsidiaries up to 30 June each year.

Subsidiaries, are those companies in which the group, has an interest of 50% or more of the voting rights or otherwise has the power to exercise control over the operations.

The results of any subsidiaries acquired or disposed of during the year are included from the effective dates of acquisition and up to the effective dates of disposal. The majority of the subsidiaries within the group have uniform year-ends and accounting policies.

Should a subsidiary apply accounting policies that are materially different to those adopted by the group, adjustments are made to the financial statements of the subsidiary, prior to consolidation. Where subsidiaries do not have coterminous accounting dates, the most recent audited financial statements are used. Adjustments are made in both cases for the effects of any significant events or transactions when the financial information used is not coterminous.

All inter group transactions and balances are eliminated on consolidation. Unrealised profits and losses are also eliminated, unless they reflect impairment in the assets so disposed.

Supplementary information

The group's presentation currency is South African rand. The supplementary information provided in US$ is translated at the closing rate for the balance sheet and at the average annual rate for the income statement.

Associated companies

An associated company is one in which the group exercises significant influence, but not control over the financial and operating policies of that company.

The group's share of post-acquisition reserves of these companies is included in the group financial statements on the equity accounting method.

In the balance sheet, the investment in the associate is carried at cost plus post-acquisition changes in the group's share of the net assets of the associates, less any impairment.

In the income statement, profit from associates reflects the share of the operations of the associate after tax.

In the statement of changes in equity, the group recognises its share of the changes where a charge has been recognised directly in the associates equity.

If an associated company applies accounting policies that are materially different to those adopted by the group, adjustments are made to the financial statements of the associated company, prior to equity accounting the investment.

Certain associated companies do not have coterminous common accounting dates. In cases where the associated company is listed the most recent published financial information is used and in cases where the associated company is not listed, the most recent audited financial statements are used. Adjustments are made in both cases for the effects of any significant events or transactions when the financial information used is not coterminous.

Borrowing costs

Borrowing costs are written off in the year in which they are incurred.

Contracts in progress

Contracts in progress and contract receivables, are carried at cost, plus profit recognised, less billings and recognised losses at balance sheet date.

Contract costs include costs that relate directly to the contract as a result of contract activity in general, and those costs that can be allocated to the contract together with any other costs which are specifically chargeable to the customer in terms of the contract.

Progress billings not received are included in contract debtors. Where progress billings exceed the aggregate of costs, plus profit, less losses, the net amounts are carried and shown as a reduction in trade and other receivables.

Contracting profit or loss recognition

Profit is recognised on an individual contract basis using the percentage of completion method, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract, and management's judgement of the outstanding risks. Where a loss is anticipated on any particular contract, provision is made in full for such loss.

Deferred tax

Deferred tax is provided, using the liability method, on all temporary differences except where exempted in terms of International Financial Reporting Standards. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using enacted or substantially enacted tax rates at the balance sheet date.

Deferred tax is charged to the income statement except to the extent that it relates to a transaction that is recognised directly in equity, or a business combination that is an acquisition.

The effect on deferred tax of any changes in tax rates is recognised in the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Employee benefits

Short term employee benefits

All short-term benefits, including leave pay, are fully provided in the period in which the related service is rendered by the employees.

Post retirement benefits

Payments to the defined contribution retirement benefit plans are charged as an expense in the year to which they relate.

The current service cost in respect of defined benefit plans is recognised as an expense in the year in which the employee renders the service.

The cost of providing benefits under the plans is determined separately for each plan using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses for each individual plan at the end of the previous reporting year exceeded 10 percent or the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plans.

Interest cost is recognised on a time proportional basis. Past service costs, experience adjustments, effects of changes in actuarial assumptions and the effects of plan amendments in respect of existing employees are charged to the income statement when they vest.

Share-based payment

Employees (executives and senior employees) of the group receive remuneration in the form of share-based payment transactions, whereby employees render services in consideration for equity instruments ('equity-settled transactions').

The group operates a share incentive plan for the granting of shares and or share options to executives and senior employees.

Shares and options are offered to executives and senior employees at market price, upon recommendation by the remuneration committee.

Shares or options become available to executives and senior employees after an initial two-year vesting period at the rate of 25% per annum. Shares or options not taken up or paid for within ten years are forfeited.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using an adjusted binomial option pricing model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Aveng Limited. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied. Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date using the adjusted binomial option pricing model taking into account the terms and conditions upon which the instruments were granted. This fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is remeasured at each balance sheet date up to and including the settlement date with changes in fair value recognised in profit or loss.

Financial instruments

Financial instruments are recognised when the group becomes party to the contractual arrangement of the instrument.

All financial instruments are initially measured at fair value. Direct costs are only included if the financial instrument is not designated as fair value through profit and loss. Subsequent measurement of these instruments is set out below.

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss for assets carried at amortised cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie the effective interest rate computed at initial recognition). The amount of the loss shall be recognised in profit or loss.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Subsequent measurement of financial instruments:

Financial assets and liabilities at fair value through profit and loss

Financial assets are classified at fair value through profit and loss if they are acquired for the purpose of selling in the near term. Gains and losses on mark to market adjustments are recognised in the income statement. The following items in the balance sheet have been classified at fair value through profit and loss:

- Derivatives consisting of forward exchange contracts and interest-rate swaps.

Held to maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost.

This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables originated by the enterprise are carried at amortised cost. Amortised cost is calculated using the effective interest-rate method which equates the present value of future expected cash flows to the current net carrying value. Short-term receivables are however carried at cost as the effect of imputing interest would be insignificant. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.Financial assets classified as loans and receivables originated by the enterprise consist of:

- Loans receivable; and
- Trade receivables.

Available for sale financial assets

Available for sale financial assets are those non derivative financial assets that are designated as available for sale or are not classified in any of the three preceding categories. After initial recognition, available for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Other financial liabilities

All other financial liabilities are carried at amortised cost (as described above). Financial liabilities carried on this basis are:

- Interest-bearing borrowings (long and short-term); and
- Trade payables and accruals.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis and option pricing models.

Where fair values cannot be reasonably measured, such financial instruments are carried at amortised cost where they have a fixed maturity date; or cost where there is no fixed maturity date.

Hedges

The group uses foreign exchange contracts to economically hedge their risks associated with foreign currency fluctuations. It is the group's policy not to speculate in foreign exchange contracts.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability;
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular

risk associated with a recognised asset or liability or a forecast of that transaction; or
- hedges of a net investment in a foreign operation.

For economic hedges that do not qualify for special hedge accounting, the gains or losses arising from changes in the fair value of the hedging instruments are taken directly to the net profit or loss for the period.

Fair value of derivatives and forward exchange contracts are calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Fair value hedges

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains and losses from both are taken to profit or loss.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through profit or loss over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to profit or loss.

Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss.

The changes in the fair value of the hedging instrument are also recognised in profit or loss.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to profit or loss. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

Cash flow hedges

Cash flow hedges are a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to profit or loss.

Foreign currency transactions and balances

Transactions denominated in foreign currencies are translated at the rate of exchange ruling at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated at the South African rand rate of exchange ruling at the balance sheet date.

Non-monetary assets and liabilities denominated in foreign currencies are translated at the South African rand rate of exchange ruling, on the later of, acquisition or revaluation dates.

Gains or losses on translation are credited or charged against income.

Foreign entities

At the reporting date, the assets and liabilities of foreign subsidiaries are translated into the presentation currency of Aveng Limited (the South African Rand) at the rate of exchange ruling at the balance sheet date. Income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the purchase consideration over the attributable fair value of the net identifiable assets at date of acquisition.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill on acquisitions after 31 March 2004 is not amortised and goodwill already carried in the balance sheet is not amortised after 1 July 2004. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combinations synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operation within the unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in the circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

A cash generating unit will not be larger than a segment based on the entities secondary reporting format determinant in accordance with IAS 14 'Segment Reporting'.

Impairment

The carrying amounts of assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, or when annual impairment testing for an asset is required, the recoverable amount is estimated as the higher of the net selling price and the value in use.

In assessing value in use, the expected future cash flows are discounted to the present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised whenever the carrying amount exceeds the recoverable amount. Impairment losses and reversal of impairment losses are separately disclosed in the income statement, above the income before tax subtotal.

For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash generating unit to which the asset belongs. An impairment loss is recognised whenever the carrying amount of the cash generating unit exceeds its recoverable amount.

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior years.

Goodwill impairment losses are not reversed.

Inventories

Inventories comprise raw materials, consumable stores, work in progress, finished goods, and properties held for development and resale. Inventories are valued at the lower of cost and net realisable value generally determined on the first-in first-out (FIFO) basis and weighted average in respect of certain stock categories. The cost of manufactured goods and work in progress, in addition to direct materials and labour include a proportion of production overheads based on normal operating capacity and the appropriate stage of completion. Borrowing costs are excluded.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated cost of completion and the estimated costs necessary to make the sale.

Write-downs to net realisable value and inventory losses are expensed in the period in which the write-downs or losses occur.

Investments in group companies

Investments in group companies, which consist of subsidiaries, joint ventures and associates in the financial statements of the holding company, are stated at cost, less amounts written off where there has been an impairment.

Joint ventures

A joint venture is an enterprise in which the group has joint control over the financial and operating policy decisions.

The group accounts for its share of jointly controlled assets and operations. Jointly controlled entities are equity accounted in the group financial statements. Where a joint venture applies accounting policies that are recognised as being materially different to those adopted by the group, adjustments are made to the financial statements of the joint venture prior to inclusion in the group financial statements.

Certain joint ventures do not have coterminous reporting dates. In those cases, the management financial statements at June are used.

Leased assets

Leases whereby the lessor provides finance to the group with the asset as security and where the group assumes substantially all the benefits and risks of ownership are classified as finance leases. Assets acquired in terms of finance leases are capitalised at the lower of fair value and the present value of the minimum lease payments at inception of the lease and depreciated over the shorter of the estimated useful life or the lease term, of the asset. The capital element of future obligations and other leases is included as a liability in the balance sheet. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance charge is charged against income over the lease period using the effective interest-rate method.

An operating lease, is one in which all the risks and benefits of ownership are effectively retained by the lessor. Payments made under operating leases are charged against income on the straight line basis over the period of the lease or on a systematic basis when the straight line basis does not reflect the physical usage of the asset.

Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and impairments.

Land is not depreciated. Freehold buildings and other fixed assets are depreciated on a straight-line basis over their expected useful lives to an estimated residual value, if such value is material.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to rise from the continued use of the asset. Any gain or loss arising on derecognition the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

The asset's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Provisions

A provision is recognised when the group has a legal or constructive obligation as a result of past events for which it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Where the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pretax rate that reflects current market assessments of the time value of money and, where appropriate the risks specific to the liability.

Research and development costs

Research costs are written off as incurred. Development costs are written off as incurred unless there is evidence of the requirements of IAS 38, where costs are considered recoverable from probable future cost savings and sales revenues. Where development costs are deferred, they are written off on the straight line basis over the life of the product or process, subject to a maximum of five years. The amortisation begins from the commencement of the commercial production of the product to which they relate.

Revenue recognition

Revenue is recognised only when it is probable that the economic benefits associated with a transaction will flow to the group and the amount of revenue can be measured reliably. Value Added Taxation is excluded.

Revenue arising from the **sale of goods** is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be reliably measured.

Revenue from the **rendering of services** is recognised on an accrual basis over the period for which the services are rendered.

Revenue from **construction contracts** is recognised, when the outcome of the construction contract can be measured reliably, by reference to the percentage of completion of the contract at the balance sheet date. The percentage of completion is measured by the proportion that the costs incurred to date bear to the estimated total costs of the contract, and management's judgement of the outstanding risks. Variations in contract work and claims are included to the extent that management are of the opinion the risk of non-collection is minimal.

Dividends on equity instruments are recognised when the right to receive payment is established.

Interest is recognised on a time proportion basis that takes account of the effective yield on the asset and an appropriate accrual is made at each accounting reference date.

Segmental reporting

Revenue and expenses are attributed directly to the segments. Segment assets include all operating assets used to by a segment, and consist principally of property, plant and equipment, as well as current assets. Segment liabilities include all operating liabilities and consist principally of trade and other payables. These assets and liabilities are all directly attributable to the segments.

The primary reporting format is determined in accordance with the nature of business and its secondary format is determined with reference to the geographical location of the operations

Taxation

The rate of the current tax charge is determined using enacted or substantially enacted rates at the balance sheet date.

Where applicable, non-resident shareholders' taxation is provided in respect of foreign dividends received.

Dividends payable on equity instruments and any secondary taxation on companies (STC) pertaining thereto are recognised in the year in which such dividends are declared. STC credits attributable to dividends received from subsidiaries and other investments are recorded as deferred taxation assets to the extent to which it is probable that group entities will declare dividends against which unused STC credits will be utilised.

Trademarks

The cost of trademarks acquired is capitalised and amortised on a straight-line basis over their estimated useful life. Internally developed trademark expenses are written off as and when incurred.

Treasury shares

Shares in Aveng Limited held by the Aveng Limited Share Incentive Trust are treated as treasury shares. The shares are treated as a deduction from the issued and weighted average number of shares and the cost price of the shares is deducted from share capital and share premium in the balance sheet on consolidation. Dividends received on treasury shares are eliminated on consolidation.

Significant accounting judgements and estimates

Judgements

In the process of applying the Group's accounting policies, management has not made any judgements, apart from those involving estimations, which have a significant effect on the amounts recognised in the financial statements.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation and uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are detailed in the following notes:

Note 2 – Goodwill
Note 3 – Investments
Note 26 – Employee benefits

Standard's issued that are not yet effective

The following standard's have not been applied by the group as the standard's are not yet effective.

IFRS 6: Exploration for and Evaluation of Mineral Resources
This standard does not apply to the activities of the group.

IFRS 7: Financial Instruments – Disclosures
This standard is required for years commencing on or after January 2007. This standard primarily deals with disclosure and will not have a quantative effect on the group.

IFRIC 4: Determining whether an arrangement contains a lease
This interpretation deals with schemes of arrangement and is effective for periods beginning on or after January 2006. To date the effect of this standard is (or is not) considered to have a material effect on the group.

IFRIC 5: Rights to Interests arising from Decomissioning, Restoration and Environmental Rehabilitation Funds
This interpretation is required for periods beginning on or after January 2006. This standard is not expected to be relevant to the activities of the group.

IFRIC 6: Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
This interpretation is effective for annual periods beginning on or after December 2005 but is not expected to be relevant to the activities of the group.

IFRIC 7: Applying the Restatement Approach Under IAS 29 Financial Reporting in Hyperinflationary Economies
This interpretation is effective for annual periods beginning on or after March 2006 but is not expected to be relevant to the activities of the group.

IFRIC 8: Scope of IFRS 2
This interpretation is effective for annual periods beginning on or after May 2006. There is currently no effect on the financial statements of this accounting interpretation.

IFRIC 9: Reassessment of embedded derivatives
This interpretation is effective for annual periods beginning on or after June 2006 but is not expected to be relevant to the activities of the group.

Consolidated balance sheet

at 30 June 2006

Restated 2005* US $m	2006* US $m		Note	2006 Rm	Restated 2005 Rm
		ASSETS			
		Non-current assets			
278,2	**291,5**	Property, plant and equipment	1	**2,083,2**	1,858,2
112,9	**106,4**	Goodwill and other intangibles	2	**760,1**	754,4
95,3	**59,5**	Investment in associates and joint ventures	3	**424,9**	636,7
8,1	**6,5**	Other investments	4	**46,4**	54,2
25,3	**38,6**	Deferred tax	5	**276,0**	169,2
519,8	**502,5**			**3,590,6**	3,472,7
		Current assets			
201,4	**192,3**	Inventories	6	**1,373,9**	1,345,2
492,9	**484,7**	Trade and other receivables	7	**3,463,8**	3,292,9
128,4	**221,8**	Cash and cash equivalents		**1,585,2**	857,4
822,7	**898,8**			**6,422,9**	5,495,5
1,342,5	**1,401,3**	**TOTAL ASSETS**		**10,013,5**	8,968,2
		EQUITY AND LIABILITIES			
		Capital and reserves			
2,9	**2,7**	Share capital	8	**19,5**	19,5
139,2	**130,1**	Share premium	9	**929,8**	929,8
	19,6	Equity portion of compound instrument		**139,9**	
(60,7)	**(50,0)**	Non-distributable reserves	10	**(357,2)**	(405,3)
345,1	**390,3**	Distributable reserves		**2,788,6**	2,305,1
426,5	**492,7**	Total ordinary shareholders' funds		**3,520,6**	2,849,1
1,4	**0,6**	Minority interests		**4,3**	9,3
427,9	**493,3**	**Total shareholders' funds**		**3,524,9**	2,858,4
		Non-current liabilities			
212,3	**175,3**	Interest-bearing borrowings	11	**1,252,4**	1,418,4
4,2	**8,7**	Deferred tax	12	**62,4**	27,9
216,5	**184,0**			**1,314,8**	1,446,3
		Current liabilities			
597,2	**639,9**	Trade and other payables	13	**4,573,1**	3,989,7
90,6	**65,3**	Short-term interest bearing borrowings	11.1	**466,7**	605,0
10,3	**18,8**	Taxation payable		**134,0**	68,8
698,1	**724,0**			**5,173,8**	4,663,5
1,342,5	**1,401,3**	TOTAL EQUITY AND LIABILITIES		**10,013,5**	8,968,2

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Restated 2005* US $m	2006* US $m		Note	2006 Rm	Restated 2005 Rm
2,172,5	**2,481,0**	**Revenue**	14	**16 053,7**	13 534,9
1,868,0	**2,123,0**	Cost of sales		**13 737,0**	11 637,9
304,5	**358,0**	**Gross profit**		**2 316,7**	1 897,0
199,6	**208,7**	Operating expenses		**1 350,4**	1 243,3
104,9	**149,3**	**Operating profit before depreciation**		**966,3**	653,7
61,7	**52,2**	Depreciation	1	**337,9**	384,1
43,2	**97,1**	**Operating profit before amortisation and non trading**	15	**628,4**	269,6
(0,2)		Amortisation of goodwill and other intangibles	18		(1,5)
3,6	**(2,4)**	Non trading items	19	**(15,5)**	22,7
46,6	**94,7**	**Operating profit**		**612,9**	290,8
43,4	**38,5**	Share of profits and losses from associates and joint ventures	3	**248,9**	270,5
13,1	**13,6**	Income from investments	16	**87,7**	81,6
103,1	**146,8**	**Operating income**		**949,5**	642,9
38,6	**25,1**	Interest paid	17	**162,4**	240,5
64,5	**121,7**	**Profit before taxation**		**787,1**	402,4
8,8	**30,6**	Taxation	20	**197,7**	54,7
55,7	**91,1**	**Profit for the period**		**589,4**	347,7
		Attributable to			
55,5	**90,8**	Equity holders of Aveng Limited		**587,6**	345,9
0,3	**0,3**	Minorities		**1,8**	1,8
55,8	**91,1**	**Profit for the period**		**589,4**	347,7
		Determination of headline earnings			
55,4	**90,8**	**Profit for the period attributable to equity holders of Aveng**		**587,6**	345,9
(3,6)	**2,4**	Net adjustment for amortisation of goodwill & non-trading items	21	**15,5**	(22,7)
51,8	**93,2**	Headline earnings	21	**603,1**	323,2
		EARNINGS PER SHARE (Cents)			
14,3	**23,3**	Earnings	21	**151,0**	88,9
13,3	**23,9**	Headline	21	**154,9**	83,0
14,3	**21,9**	Diluted Earnings	21	**141,5**	88,9
13,3	**22,4**	Diluted Headline Earnings	21	**144,9**	83,0
3,7	**5,9**	**DIVIDEND PER SHARE (Cents)**		**38,0**	23,0
		NUMBER OF SHARES (Millions)			
396,1	**396,1**	In issue	8	**396,1**	396,1
389,2	**389,2**	Weighted average	21	**389,2**	389,2
389,2	**454,7**	Diluted weighted average	21	**454,7**	389,2

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Statement of changes in equity

for the year ended 30 June 2006

	Attributable to equity holders of the parent									
				Non-distributable reserves						
	Share capital Rm	Share premium Rm	Equity portion of compound instrument Rm	**Attributable reserves of equity accounted investments Rm**	**Foreign currency translation Rm**	**Other non distributable reserves Rm**	Retained income Rm	**Total Rm**	Minority interest Rm	**Total equity Rm**
Balance at 1 July 2004 as previously stated	19,5	929,8		**(20,8)**	**(452,3)**	**0,2**	2 018,2	**2 494,6**	5,6	**2 500,2**
Impairment adjustment – goodwill							(8,0)	**(8,0)**		**(8,0)**
Effect on adoption of IFRS 2							(22,7)	**(22,7)**		**(22,7)**
Balance at 1 July 2004 as restated	19,5	929,8		**(20,8)**	**(452,3)**	**0,2**	1 987,5	**2 463,9**	5,6	**2 469,5**
Profit for the year							345,9	**345,9**	1,8	**347,7**
Dividends paid							(54,5)	**(54,5)**		**(54,5)**
Equity accounted reserve movements				**(6,1)**				**(6,1)**		**(6,1)**
Foreign currency translation					**41,9**			**41,9**	1,9	**43,8**
Effect on adoption of IFRS 3							25,3	**25,3**		**25,3**
Revaluation reserve						**32,7**		**32,7**		**32,7**
Transfers						**(0,9)**	0,9			
Balance at 30 June 2005	19,5	929,8		**(26,9)**	**(410,4)**	**32,0**	2 305,1	**2 849,1**	9,3	**2 858,4**
Profit for the year							587,6	**587,6**	1,8	**589,4**
Dividends paid							(89,5)	**(89,5)**		**(89,5)**
Equity accounted reserve movements				**16,0**				**16,0**		**16,0**
Foreign currency translation					**17,5**			**17,5**	(6,8)	**10,7**
Convertible bond conversion			139,9					**139,9**		**139,9**
Transfers						**14,6**	(14,6)			
Balance at 30 June 2006	19,5	929,8	139,9	**(10,9)**	**(392,9)**	**46,6**	2 788,6	**3 520,6**	4,3	**3 524,9**

Cash flow statement

for the year ended 30 June 2006

Restated 2005* US $m	2006* US $m		Note	2006 Rm	Restated 2005 Rm
		Cash retained from operating activities			
55,9	**94,7**	Cash retained from operations	22.1	**612,9**	348,1
61,7	**54,2**	Depreciation		**337,9**	384,1
(13,2)	**26,2**	Non-cash items	22.2	**163,3**	(82,2)
104,4	**175,1**	Cash generated by operations		**1,114,1**	650,0
13,1	**14,1**	Income from investments		**87,7**	81,6
(11,7)	**60,8**	(Decrease)/Increase in working capital	22.3	**378,6**	(72,8)
105,8	**250,0**	Cash generated by operating activities		**1,580,4**	658,8
(38,6)	**(26,1)**	Interest paid	22.4	**(162,4)**	(240,5)
(12,2)	**(33,2)**	Taxation paid	22.5	**(206,5)**	(75,9)
55,0	**190,7**	Cash available from operating activities		**1,211,5**	342,4
(8,7)	**(14,4)**	Dividend paid	22.6	**(89,5)**	(54,5)
46,3	**176,3**			**1,122,0**	287,9
		Investing activities			
(42,0)	**(65,1)**	Fixed assets purchased – expansion		**(405,6)**	(261,8)
(33,1)	**(57,0)**	– replacement		**(354,9)**	(206,5)
		Investments in subsidiaries and businesses	22.7		
27,9	**54,7**	Investments in associate companies	22.8	**340,7**	174,0
24,9	**32,9**	Proceeds disposal of – fixed assets		**205,0**	155,3
(1,9)	**1,6**	– Investments	22.9	**10,0**	(12,0)
(24,2)	**(32,9)**			**(204,8)**	(151,0)
		Financing activities			
160,5		Long-term borrowings – raised			1,000,0
(22,3)	**(36,1)**	Long-term borrowings – repaid		**(224,9)**	(139,1)
138,2	**(36,1)**			**(224,9)**	860,9
		Cash and cash equivalents at end of year			
160,2	**111,1**	Net increase in cash and cash equivalents		**692,3**	997,8
(71,2)	**89,0**	Cash and cash equivalents at beginning of year		**554,2**	(443,6)
89,0	**200,1**		22.10	**1,246,5**	554,2

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Segmental report

for the year ended 30 June 2006

		2006 Rm	%	Restated 2005 Rm	%
BUSINESS SEGMENTATION					
Revenue	Construction – South Africa and Africa	**7 497,5**	**46,7**	6 765,0	50,0
	Construction – Australasia and Pacific	**2 955,7**	**18,4**	1 795,6	13,3
	Steel & Allied	**5 600,5**	**34,9**	4 974,3	36,7
		16 053,7	**100,0**	13 534,9	100,0
Operating profit	Construction – South Africa and Africa	**(125,2)**	**(20,4)**	(65,1)	(22,4)
	Construction – Australasia and Pacific	**67,5**	**11,0**	(117,3)	(40,3)
	Steel & Allied	**670,6**	**109,4**	473,2	162,7
		612,9	**100,0**	290,8	100,0
Assets	Construction – South Africa and Africa	**3 226,6**	**42,0**	3 427,2	47,3
	Construction – Australasia and Pacific	**982,3**	**12,8**	778,7	10,7
	Steel & Allied	**3 472,1**	**45,2**	3 044,8	42,0
		7 681,0	**100,0**	7 250,7	100,0
Liabilities	Construction – South Africa and Africa	**2 399,2**	**52,5**	2 377,1	59,6
	Construction – Australasia and Pacific	**861,7**	**18,8**	432,9	10,9
	Steel & Allied	**1 312,2**	**28,7**	1 179,7	29,5
		4 573,1	**100,0**	3 989,7	100,0
Capital expenditure	Construction – South Africa and Africa	**423,1**	**55,6**	298,1	63,7
	Construction – Australasia and Pacific	**176,7**	**23,2**	49,7	10,6
	Steel & Allied	**160,7**	**21,1**	120,5	25,7
		760,5	**100,0**	468,3	100,0
Depreciation	Construction – South Africa and Africa	**186,2**	**55,1**	248,7	64,7
	Construction – Australasia and Pacific	**54,6**	**16,2**	37,2	9,7
	Steel & Allied	**97,1**	**28,7**	98,2	25,6
		337,9	**100,0**	384,1	100,0
GEOGRAPHICAL SEGMENTATION					
Revenue	South Africa	**10 382,4**	**64,7**	8 824,8	65,2
	Africa and Elsewhere	**2 715,0**	**16,9**	2 855,3	21,1
	Australasia and Pacific	**2 956,3**	**18,4**	1 854,8	13,7
		16 053,7	**100,0**	13 534,9	100,0
Assets	South Africa	**5 033,8**	**65,5**	4 896,3	67,5
	Africa and Elsewhere	**1 664,8**	**21,7**	1 592,6	22,0
	Australasia and Pacific	**982,4**	**12,8**	761,8	10,5
		7 681,0	**100,0**	7 250,7	100,0
Capital expenditure	South Africa	**405,6**	**53,3**	219,9	47,0
	Africa and Elsewhere	**178,1**	**23,4**	198,8	42,4
	Australasia and Pacific	**176,8**	**23,2**	49,6	10,6
		760,5	**100,0**	468,3	100,0

HOLCIM (SOUTH AFRICA) (PROPRIETARY) LIMITED – (100%)

	2006 Rm	2005 Rm
Revenue	**4 534,6**	3 966,7
Operating income	**1 156,1**	1 099,4
Assets	**2 127,3**	1 881,3
Liabilities	**624,8**	502,0
Capital expenditure	**387,8**	145,1
Depreciation	**111,9**	118,2
Net debt to equity ratio	**33,7**	2,1%

Note: The financial information above relates to Holcim (South Africa) (Proprietary) Limited (100%) and not the equity accounted entity Altur. Aveng Limited holds its 45,65% stake in Holcim (South Africa) through Altur.

	Land and buildings Rm	Owned plant, equipment and vehicles Rm	Leased plant, equipment and vehicles Rm	**Total 2006 Rm**
1. PROPERTY, PLANT AND EQUIPMENT				
2006				
Cost				
At beginning of year – historical cost	425,9	3 436,1	261,0	**4 123,0**
Foreign exchange movements	(4,5)	40,6	2,6	**38,7**
Additions	43,9	707,8	8,8	**760,5**
Disposals	(23,2)	(321,5)	(28,0)	**(372,7)**
Businesses acquired or sold		5,6		**5,6**
At end of year	442,1	3 868,6	244,4	**4 555,1**
Accumulated depreciation				
At beginning of year – historical cost	91,8	2 084,9	88,1	**2 264,8**
Foreign exchange movements	1,0	16,5	1,3	**18,8**
Current year charge	25,1	283,4	29,4	**337,9**
Disposals	(1,5)	(132,5)	(16,0)	**(150,0)**
Businesses acquired or sold		0,4		**0,4**
At end of year	116,4	2 252,7	102,8	**2 471,9**
Net book value at end of year	325,7	1 615,9	141,6	**2 083,2**
2005				
Cost				
At beginning of year – historical cost	401,2	3 299,1	264,5	3 964,8
Foreign exchange movements	2,3	15,4	10,3	28,0
Additions	11,0	445,0	12,3	468,3
Disposals	(4,9)	(305,5)	(26,1)	(336,5)
Businesses acquired or sold		(1,6)		(1,6)
Reclassification of assets	16,3	(16,3)		
At end of year	425,9	3 436,1	261,0	4 123,0
Accumulated depreciation				
At beginning of year – historical cost	74,9	1 932,8	66,4	2 074,1
Foreign exchange movements	1,2	8,3	4,2	13,7
Current year charge	19,1	335,6	29,4	384,1
Disposals	(3,4)	(191,8)	(1,9)	(197,1)
Businesses acquired or sold			(10,0)	(10,0)
At end of year	91,8	2 084,9	88,1	2 264,8
Net book value at end of year	334,1	1 351,2	172,9	1 858,2
Land and buildings comprise:				
Freehold			412,5	348,4
Long leasehold			29,6	77,5
			442,1	425,9
The replacement value of assets for insurance purposes amounts to			5 383,9	6 061,6
There are no investment properties.				

Rates and methods of depreciation	Method	Rate %	Rate %
1. PROPERTY, PLANT AND EQUIPMENT (continued)			
Freehold buildings	Straight line	2	2
Leasehold property	Straight line	Lease period	Lease period
Plant and machinery	Straight line	25	25
Office equipment	Straight line	10 – 33	10 – 33
Furniture and fittings	Straight line	15 – 20	15 – 20
Motor vehicles	Straight line	25	25

The cost of fully depreciated plant and equipment that was still in use at 30 June 2006 was R350,1 million (2005: R291,5 million). A register containing details of land and buildings is available for inspection during business hours at the registered office of the company by members or their duly authorised agents.

	Rm	Rm
The carrying amount of property, plant and equipment which is temporarily idle is	6,4	0,7
The carrying amount of property, plant and equipment which is retired from active service and held for disposal	Nil	Nil
There are no assets with impaired values.		

	Total 2006 Rm	Total 2005 Rm
2. GOODWILL AND OTHER INTANGIBLE ASSETS		
Goodwill		
Gross carrying amount		
At beginning of year	**739,4**	942,2
Adjustment to opening balance		(14,7)
Restated opening balance	**739,4**	927,5
Effect on adoption of IFRS 3		(208,2)
Foreign exchange movements	**5,7**	20,1
At end of year	**745,1**	739,4
Accumulated amortisation		
At beginning of year		238,7
Adjustment to opening balance		(6,7)
Restated opening balance		232,0
Current year amortisation		1,5
Effect on adoption of IFRS 3		(233,5)
At end of year		
Trademarks		
Carrying amount		
At beginning of year	**15,0**	15,0
Amortisation		
At end of year	**15,0**	15,0
Total goodwill and intangible assets	**760,1**	754,4

2. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

Impairment testing of indefinite life goodwill

Goodwill acquired through business combinations has been allocated to two individual cash-generating operations for impairment testing as follows:

Grinaker-LTA Limited (arose from the acquisition of LTA Limited effective 1 July 2000) and McConnell Dowell Corporation Limited (arose from the acquisition of LTA Limited effective 1 July 2000 and the subsequent purchase of the minorities effective 18 August 2003)

The recoverable amount of both cash generating units has been determined based on a value-in-use calculation.

To calculate this, cash flow projections are based on financial budgets approved by senior management covering a three-year period. The discount rate applied to the cash flow projections is 15% (2005: 15%). The average growth rate used to extrapolate the cash generating units beyond the three-year period is 5% (2005: 5%). These calculations indicated that there was no impairment in the carrying value of the goodwill.

Key assumptions applied in value-in-use calculation of the cash generating units

Revenue, gross margin and costs were based on historical performance, or where not appropriate managements view of the future in the industry taking into consideration management's actions taken to enhance performance.

Impairment of Stockton goodwill in McConnell Dowell

The Stockton goodwill in McConnell Dowell was reviewed for impairment in 2006. The goodwill was considered to be impaired as at 30 June 2004. The goodwill was however not written down until 2006. This gave rise to a prior year adjustment which resulted in the goodwill and opening retained income figure each being reduced by R8 million.

	Total 2006 Rm	Total 2005 Rm
3. INVESTMENT IN ASSOCIATES AND JOINT VENTURES		
Unlisted	**424,9**	636,7
Investment		
At beginning of year	**636,7**	511,0
Disposals	**(1,2)**	
Dividends received	**(378,6)**	(226,2)
Exchange difference adjustments	**(2,4)**	15,9
Loans advanced	**39,1**	51,3
Associates now subsidiaries		(1,5)
Fair value adjustment	**(118,9)**	6,5
Non-distributable reserve transfers	**16,0**	5,0
Share of non-trading items		13,2
Share of reserve movements in the year	**(14,7)**	(9,0)
Share of results before taxation	**479,2**	437,5
Share of taxation	**(230,3)**	(167,0)
At end of year	**424,9**	636,7
The group's share of aggregate assets, liabilities and results of operations and cash flow of associate and joint venture companies are summarised hereunder:		
Non-current assets	**723,9**	558,8
Current assets	**797,5**	821,0
	1 521,4	1 379,8
Current liabilities	**960,0**	613,2
Interest-bearing debt	**57,5**	164,2
Non-interest-bearing debt	**128,5**	120,0
Equity	**375,4**	482,4
	1 521,4	1 379,8
Revenue	**2 666,1**	2 599,2
Expenses	**2 160,0**	2 143,0
Net surplus after tax on non-trading items		13,2
Net finance costs	**26,9**	31,9
Income before taxation	**479,2**	437,5
Taxation	**230,3**	167,0
Income after taxation	**248,9**	270,5
Net cash (outflow)/inflow from operating activities	**(114,5)**	66,1
Net cash (outflow)/inflow from investing activities	**(222,8)**	28,8
Net cash inflow/(outflow) from financing activities	**66,4**	(45,1)
Net (decrease)/increase in cash and cash equivalents	**(270,9)**	49,8
Cash and cash equivalents at beginning of period	**63,2**	13,4
Cash and cash equivalents at end of period	**(207,7)**	63,2

	Total 2006 Rm	Total 2005 Rm
4. OTHER INVESTMENTS		
At beginning of year	**54,2**	43,8
Revaluations	**2,2**	20,5
Redemption of redeemable units in the N3TC company	**(10,0)**	(10,1)
At end of year	**46,4**	54,2
The directors value these unlisted investments at not less than their fair value.		
Investments comprise a 10,14% investment in the N3 Toll Concession Company (Pty) Limited and a Momentum Life sinking fund policy.		
5. DEFERRED TAX ASSET		
At beginning of year	**169,2**	65,8
– Reclassification from deferred tax liability	**35,3**	
– Effect on adoption of IFRS 2		9,3
Restated opening balance	**204,5**	75,1
Adjustment for tax rate change		(0,6)
Transfer from income statement – current year	**68,4**	77,7
– prior years	**(1,0)**	(4,9)
Effect on adoption of IFRS 2	**5,4**	16,6
Exchange differences	**(1,3)**	5,3
At end of year	**276,0**	169,2
Balance at end of year comprises:		
Capital allowances	**(51,5)**	(32,5)
Other timing differences	**163,9**	175,8
Unrealised foreign exchange loss	**(2,7)**	15,3
Permanent differences arising on consolidation	**10,6**	10,6
Assessed losses carried forward	**155,7**	
	276,0	169,2
6. INVENTORIES		
Raw materials	**562,8**	600,1
Consumable stores	**183,5**	138,3
Work in progress	**88,3**	92,6
Finished goods	**503,4**	465,8
Properties held for development and resale	**35,9**	48,4
	1 373,9	1 345,2
No inventories are valued at net realisable value.		

	Total 2006 Rm	Total 2005 Rm
7. TRADE AND OTHER RECEIVABLES		
Costs incurred plus profits recognised, less estimated losses relating to contracts in progress at year-end, less progress payments	**726,3**	731,9
Amounts receivable in excess of amounts billed	**219,9**	322,0
	946,2	1 053,9
Advances receivable in excess of work performed	**(416,8)**	(286,8)
Net amounts due on contracts	**529,4**	767,1
Retentions receivable	**102,0**	125,6
Contracts in progress less progress payments	**631,4**	892,7
Trade	**1 145,4**	880,5
Contract debtors	**1 236,2**	1 048,9
Pre-payments and other	**450,8**	470,8
	3 463,8	3 292,9
8. SHARE CAPITAL		
Authorised		
Ordinary share capital		
882 034 263 ordinary shares of 5 cents each	**44,1**	44,1
Issued		
Total issued share capital of 396 145 908 (2005 – 396 145 908) ordinary shares of 5 cents each	**19,5**	19,5
9. SHARE PREMIUM		
At beginning of year	**929,8**	929,8
At end of year	**929,8**	929,8
10. NON-DISTRIBUTABLE RESERVES		
Balance at end of the year comprises:		
Associated companies' and joint ventures retained reserves	**(10,9)**	(26,9)
Capital redemption reserve fund	**0,2**	0,2
Foreign currency translation reserve	**(392,9)**	(410,4)
Revaluation reserve	**31,8**	32,7
Transfer from/(to) distributable reserves	**14,6**	(0,9)
	(357,2)	(405,3)

	Note	2006 Rm	2005 Rm
11. INTEREST-BEARING BORROWINGS			
11.1 Non-current borrowings			
Summary of loans by financial year of redemption			
2006			301,8
2007		**91,4**	116,5
2008		**99,4**	97,8
2009		**57,4**	71,4
2010		**48,0**	51,1
2011		**22,2**	1 081,6
2012 onwards		**1 062,0**	
Total borrowings	11.2	**1 380,4**	1 720,2
Current portion included in short-term borrowings		**(128,0)**	(301,8)
		1 252,4	1 418,4
Short-term interest-bearing-borrowings			
Overdrafts	22.9	**338,7**	303,2
Current portion of non-current borrowings		**128,0**	301,8
		466,7	605,0
Total interest-bearing borrowings		**1 719,1**	2 023,4

11.2 Analysis of total non-current borrowings

	Final repayment date	Rate of interest per year (payable half-yearly) 2006 %	2005 %	2006 Rm	2005 Rm
Unsecured loans					
	2006		7,9 – 17,2		245,4
	2007	**6,1 – 12,8**	7,9 – 17,2	**39,5**	58,4
	2008	**6,1 – 12,8**	7,9 – 17,2	**65,6**	56,2
	2009	**6,1 – 12,8**	7,9 – 17,2	**37,6**	40,8
	2010	**6,1 – 12,8**	7,9 – 17,2	**35,2**	15,6
	2011	**6,1 – 12,8**	7,9 – 17,2	**11,7**	11,7
				189,6	428,1
Secured loans					
	2006		8 – 15		56,4
	2007	**6,1 – 15,6**	8 – 15	**52,4**	58,1
	2008	**6,1 – 15,6**	8 – 15	**33,8**	41,6
	2009	**6,1 – 15,6**	8 – 15	**19,9**	30,6
	2010	**6,1 – 15,6**	8 – 15	**12,8**	35,5
	2011	**6,1 – 15,6**	6 – 15	**10,4**	1 069,9
	2012 onwards	**6,1 – 15,6**			
				1 190,8	1 292,1
Total non-current interest-bearing borrowings			Note 11.1	**1 380,4**	1 720,2

The company and its subsidiaries have entered into cross suretyships in respect of current and future financial obligations to First Rand Bank Limited amounting to R244,2 million (2005: R351,1 million). These amounts are included above. A net debt-to-equity and interest-cover covenant is applicable.

Finance lease liabilities are secured against the appropriate asset.

	2006 Rm	2006 %	2005 Rm	2005 %
11. INTEREST-BEARING BORROWINGS (continued)				
11.3 Borrowings and cash analysis				
Gross borrowings – Geographic				
South Africa	**543,3**	**31,6%**	713,7	35,3
Foreign	**1 175,8**	**68,4%**	1 309,7	64,7
	1 719,1	**100,0%**	2 023,4	100,0
Cash – Geographic				
South Africa	**830,7**	**52,4%**	426,7	49,8
Foreign	**754,5**	**47,6%**	430,7	50,2
	1 585,2	**100,0%**	857,4	100,0

	2006 Gross Rm	2006 Cash Rm	2006 Net Rm	2006 %	2005 Net Rm	2005 %
Fixed and variable						
Fixed – long term	**1 252,4**		**1 252,4**	935,3	1 418,4	121,6
– short term	**128,0**		**128,0**	95,6	301,8	25,9
Variable	**338,7**	**1 585,2**	**1 246,5**	(930,9)	(554,2)	(47,5)
	1 719,1	**1 585,2**	**133,9**	100,0	1 166,0	100,0

11.4 Convertible bond

The R1 billion convertible bond is currently accounted for as combined borrowings and equity.

This treatment will continue until the conversion of the instrument into equity. Approval for this conversion into Aveng Limited shares was granted at the annual general meeting, which was held on 28 October 2005. Aveng Limited shares placed under the control of the directors for the conversion were 65 487 885.

The bonds are initially convertible into cash with reference to the volume weighted average price of an Aveng Limited share, over a 20 dealing day period.

Unless previously purchased and cancelled, redeemed or converted, the bonds will be redeemed on 17 March 2012.

Aveng has the option to redeem all the bonds on or after 17 March 2009, when the Aveng Limited share price is equivalent to R19,85 per share over a period of more than 20 dealing days during any period of 30 consecutive dealing days.

The effect of the conversion is as follows:

Balance sheet	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Equity	140	140	140	140	140	140	140
Liability	860	876	894	912	933	955	979
Deferred taxation	2	7	12	18	24	31	38
Income statement							
Interest expense	39	78	79	81	83	84	86
Deferred taxation credit	(2)	(5)	(5)	(6)	(6)	(7)	(7)

	Note	Total 2006 Rm	Total 2005 Rm
12. DEFERRED TAX LIABILITY			
At beginning of year		**27,9**	27,8
Reclassification from deferred tax asset		**35,3**	
Restated opening balance		**63,2**	27,8
Transfer (to) income statement		**(1,2)**	(1,2)
Exchange difference		**0,4**	1,3
At end of year		**62,4**	27,9
Balance at end of year comprises:			
Accelerated capital allowances		**41,7**	32,8
Other timing differences		**20,7**	(5,9)
Difference due to foreign tax rates			1,0
		62,4	27,9
13. TRADE AND OTHER PAYABLES			
Trade		**1 427,0**	1 320,6
Contracts in progress due to customers		**668,4**	475,5
IFRS 2 share-based payment provision		**107,9**	89,3
Accrued expenses		**2 369,8**	2 104,3
		4 573,1	3 989,7
14. REVENUE			
Goods		**6 050,2**	4 791,7
Construction contract revenue		**9 709,0**	8 542,7
Services		**294,5**	200,5
Revenue		**16 053,7**	13 534,9

Revenue comprises sales of goods and services and selling commissions, value of work done by contracting companies, fees, commission and rentals.

Revenue represents the gross inflows of economic benefits during the period arising in the course of ordinary activities of the group when those inflows result in increases in equity other than increases relating to contributions from equity participants.

	Note	Total 2006 Rm	Total 2005 Rm
15. OPERATING PROFIT DISCLOSURES			
In arriving at operating profit the following items have been taken into account:			
Amortisation of goodwill			1,5
Auditor's remuneration – fees for audit		**20,4**	16,0
– fees for other services		**1,8**	1,4
– expenses		**0,7**	0,4
Depreciation of property, plant, and equipment – land and buildings		**25,1**	19,1
– plant, equipment and vehicles		**312,8**	365,0
Disposal of investments (surplus)/loss		**(2,2)**	1,6
Disposal of properties, plant and equipment loss/(surplus)		**17,7**	(24,3)
Losses/(Gains) on financial assets and liabilities		**7,5**	(26,9)
Operating lease expenses			
– buildings		**22,2**	32,5
– plant, machinery, equipment and vehicles		**24,6**	68,0
Remuneration services – managerial, secretarial, financial, technical		**27,2**	21,8
Staff costs			
– salaries and wages		**3 165,0**	2 310,3
– contributions to retirement funds		**111,9**	98,4
– contributions to medical funds		**71,0**	67,7
16. INCOME FROM INVESTMENTS			
Dividends – unlisted		**7,3**	8,3
Interest – external		**80,4**	73,3
		87,7	81,6
17. INTEREST PAID			
Interest expense		**162,4**	240,5
No borrowing costs have been capitalised during the year. (2005: Nil)			
18. AMORTISATION OF GOODWILL AND OTHER INTANGIBLE ASSETS			
Intangible assets are amortised through the income statement over their estimated useful life.			
– Goodwill			1,5
	2	**—**	1,5

	Note	Total 2006 Rm	Total 2005 Rm
19. NON-TRADING ITEMS			
Disposal of properties, plant and equipment loss/(surplus)	21	**17,7**	(24,3)
Disposal of investments (surplus)/loss	21	**(2,2)**	1,6
		15,5	(22,7)
20. TAXATION			
South African normal taxation – current		**271,3**	144,6
Deferred tax		**(74,0)**	(90,0)
Secondary tax on companies		**0,3**	0,1
Capital gains tax		**0,1**	
		197,7	54,7
Reconciliation of rate of taxation (%)			
Standard rate of company taxation		**29,0**	29,0
Adjusted for:			
Assessed loss utilised		**(2,7)**	(10,4)
Current year's tax losses not utilised		**8,3**	12,2
Disallowable expenditure		**1,5**	1,9
Exempt income		**(3,0)**	(0,5)
Foreign tax adjustment		**0,7**	(0,9)
Income from associates		**(10,2)**	(17,4)
Other		**(1,7)**	(1,7)
Prior years		**5,1**	
Capitals gains tax		**(1,9)**	1,8
Effective taxation rate		**25,1**	14,0
Effective rate of taxation for the year before amortisation of goodwill, other non-trading items and associated companies		**36,7%**	41,5%

The estimated losses which are available for the reduction of future taxable income are R663 million (2005: R268 million), of which R549 million (2005: R78 million) has been taken into account in calculating deferred taxation.

The group has estimated unused credits in respect of secondary tax on companies amounting to R789 million (2005: R509 million).

These credits are available to be carried forward for set-off against future dividends payable by the company in establishing the liability for any secondary tax on companies that may become payable.

	Note	Total 2006 Rm	Total 2005 Rm
21. EARNINGS AND HEADLINE EARNINGS PER SHARE			
Weighted average number of shares			
For calculation of weighted average earnings per share		389 234 978	389 234 978
Add: Convertible bond dilution effect		65 487 885	
For calculation of diluted weighted average earnings per share		454 722 863	389 234 978
Determination of headline earnings			
Earnings		587,6	345,9
Net surplus/(loss) on disposal of properties and equipment	19	17,7	(24,3)
(Loss)/net surplus on disposal of investments	19	(2,2)	1,6
Headline earnings		603,1	323,2
Determination of diluted earnings and diluted headline earnings			
Headline earnings		603,1	323,2
Interest saving effect on convertible bonds		78,9	
Interest saving effect on convertible bonds – tax effect		(22,9)	
Diluted headline earnings		659,1	323,2
Determination of diluted earnings and diluted headline earnings			
Diluted Earnings		659,1	323,2
Net surplus/(loss) on disposal of properties and equipment	19	17,7	(24,3)
(Loss)/net surplus on disposal of investments	19	(2,2)	1,6
Diluted earnings		643,6	345,9
22. NOTES TO THE CASH FLOW STATEMENT			
22.1 Cash retained from operations			
Net income before tax		787,1	459,7
Adjust for:			
Income from associates		(248,9)	(270,5)
Income from investments		(87,7)	(81,6)
Interest paid		162,4	240,5
		612,9	348,1
22.2 Non-cash movements			
Loss/(Surplus) on disposal of property, plant and equipment		17,7	(24,3)
(Surplus)/Loss on disposals of investments		(2,2)	1,6
Foreign currency translation reserve movements		14,2	(67,6)
Fair value adjustment		118,9	(6,5)
Other non-cash items		14,7	13,1
Write off of goodwill and other intangibles			1,5
		163,3	(82,2)
22.3 Working capital movements			
Increase in inventories		(28,7)	(327,5)
Increase in trade and other payables		578,2	660,5
Increase in trade and other receivables		(170,9)	(405,8)
		378,6	(72,8)

	Note	Total 2006 Rm	Total 2005 Rm
22. NOTES TO THE CASH FLOW STATEMENT (continued)			
22.4 Net financing costs			
Net financing costs per income statement		**162,4**	240,5
22.5 Normal taxation paid			
Amounts unpaid at beginning of year		**68,8**	
Amounts charged to the income statement		**271,7**	144,7
Amounts unpaid at end of year		**(134,0)**	(68,8)
		206,5	75,9
22.6 Dividends paid			
Amounts charged to equity		**89,5**	54,5
22.7 Investments in subsidiaries, businesses or operations			
Net assets of subsidiaries and businesses acquired			
Property, plant and equipment		**(5,2)**	
Working capital		**5,2**	
Net cash and cash equivalents included in net assets acquired			
Cash flow on acquisitions			
22.8 Associated companies and joint ventures			
Disposals		**1,2**	
Dividends received		**378,6**	226,2
Net loans advanced		**(39,1)**	(51,3)
Return of equity			(0,9)
		340,7	174,0
22.9 Other investments			
Repayment of loans			(20,5)
Net return of capital			8,5
Proceeds on sale		**10,0**	
		10,0	(12,0)
22.10 Cash and cash equivalents			
Deposits and cash	11.3	**1 585,2**	857,4
Overdrafts	11.1	**(338,7)**	(303,2)
		1 246,5	554,2

	Total 2006 Rm	Total 2005 Rm
23. COMMITMENTS		
Capital commitments		
Capital expenditure authorised – contracted for	157,4	18,7
– not contracted for	109,9	169,9
	267,3	188,6
It is anticipated that this expenditure will be in respect of capital equipment which will be financed from exisiting cash and borrowing facilities.		
Operating lease commitments		
The future minimum lease payments under non-cancelable operating leases are as follows:		
– Land and buildings less than one year	15,7	15,7
– Land and buildings more than one year	44,8	42,0
– Plant and equipment less than one year	113,5	121,1
– Plant and equipment more than one year	277,8	371,7
	451,8	550,5
24. CONTINGENT LIABILITIES		
Contingent liabilities at balance sheet date, not otherwise provided for in the annual financial statements, arising from:		
– guarantees in the normal course of business from which it is anticipated that no material liabilities will arise:		
– exchange contracts	122,1	
– guarantees	219,4	283,3
– performance bonds	274,6	
– contractual claims – Gabon housing project	142,1	
– contractual claims – Marikana mining project	963,0	
– other contract claims (net of deposits held)	32,1	
– letters of credit	15,5	
– loan advances	60,0	316,6
	1 828,8	599,9

Contract performance guarantees issued by the parent company on behalf of their group company are calculated either on the basis of all or part of the contract sum of each respective assignment, depending on the terms of the agreement, without being offset against still and received compensation from the customer.

In connection with contracting assignments, security is often provided in the form of a performance guarantee from a bank or insurance institution. The issue of the guaranteed, in turn, normally receives an indemnity from the contracting company or other group company. In compliance with industry custom, such indemnities related to the group's and contracting assignments are not reported as contingent liabilities, since they do not involve any increase of liability compared to the contracting commitment.

Included in contingent liabilities is the following:

Marikana, a division of Aquarius Platinum Limited has issued a summons for R963 million against Moolmans, a division of Grinaker LTA, for alleged misrepresentation. Attorneys are currently of the opinion that there is no financial exposure to Moolmans. The entire R963 million has however been disclosed as a contingent liability.

Grinaker LTA Building division entered into a contract in 2001 to build 100 houses in Gabon. The houses were duly built by means of finance provided by a local financial institution which is now seeking restitution in the amount of €15,5 million (R142 million), due to an alleged default by the government of Gabon. Proceedings are in progress.

A dispute exists with BHP Billiton over the Minerva project termination. McConnell Dowell have taken action against BHP Billiton to recover costs. BHP Billiton have counterclaimed for damages against McConnell Dowell.

Foreign currency payables and receivables	Foreign amount 2006	Foreign amount 2005	Rand amount Rm 2006	Rand amount Rm 2005
25. FOREIGN EXCHANGE EXPOSURE				
Forward exchange contracts on imports				
Australian dollars				
Euro	**13,2**	9,8	**108,0**	80,8
UK pounds	**0,4**		**5,0**	
US dollars	**2,2**	1,7	**15,1**	10,5
			128,1	91,3
Forward exchange contracts on exports				
Euro	**0,6**	1,7	**5,1**	13,8
US dollars	**4,6**	2,0	**29,0**	14,3
			34,1	28,1
The group does not enter into forward exchange contracts which do not relate to specific items.				
Foreign currency payables and receivables				
Payables				
Australian dollars	**64,6**	62,9	**342,2**	320,9
Euro	**9,5**		**77,2**	
Fiji dollars	**1,6**		**6,7**	
Hong Kong dollar	**1,1**		**1,0**	
Libyan dinar	**0,9**		**4,8**	
Metical	**59 753,1**	491,5	**15,9**	147,5
New Zealand dollars	**18,5**	0,5	**80,2**	2,3
Nigeria niara		2,2		105,3
Pula	**247,6**	34,6	**282,7**	46,0
Saudi riyal	**0,8**		**1,5**	
Swedish krona	**0,1**		**0,1**	
Singapore dollars	**24,5**		**111,7**	
Swiss franc	**0,3**		**1,7**	
Tanzanian shilling	**32 392,5**		**190,4**	
Thai baht	**6,5**		**1,2**	
UK pounds	**1**	(0,1)	**14**	(42,9)
US dollars	**72,0**	11,4	**513,6**	303,5
Zambian kwacha	**2,6**	56,7		75,2
Zimbabwe dollar	**110 973,1**	57,6	**7,8**	60,9
CPF franc	**7,2**		**0,6**	
			1 653,1	1 018,7

Foreign currency payables and receivables	Foreign amount 2006	Foreign amount 2005	Rand amount Rm 2006	Rand amount Rm 2005
Receivables				
Australian dollars	**55,4**	74,3	**293,8**	378,3
Ethopian birr		(0,1)		(0,6)
Euro	**0,3**		**2,7**	
Fiji dollars	**1,0**		**4,1**	
Hong Kong dollar	**0,1**		**0,1**	
Libyan dinar	**0,2**		**1,2**	
Metical	**3 181,6**	218,7	**0,8**	65,6
New Zealand dollars	**11,3**		**49,0**	
Nigeria niara		0,9		45,1
Pula	**70,9**	0,1	**80,9**	58,4
Saudi riyal	**0,2**		**0,4**	
SEA	**4,5**		**8,8**	
Singapore dollars	**17,6**		**79,9**	
Tanzanian shilling	**29 479,2**		**173,2**	
Thai baht	**5,8**		**1,1**	
UK pounds	**7,6**	(0,1)	**100,2**	(2,3)
US dollars	**61,2**	150,9	**434,4**	946,7
Zambian kwacha	**290,2**	36,6	**0,6**	48,5
Zimbabwe dollar	**12 928,6**	14,1	**0,9**	14,9
CPF franc	**(8,0)**		**(0,6)**	
			1 231,5	1 554,6

	Assets	Liabilities	Net asset/ (liability) exposure
Exposure to uncovered foreign exchange			
Euro	0,3	0,3	
SEK		0,1	(0,1)
Swiss franc		0,3	(0,3)
US dollars		4,2	(4,2)
	0,3	4,9	(4,6)

The group's policy is to cover all foreign currency exposures unless a natural hedge exists.

Foreign exchange rate table – material currencies

	2006 Closing	2006 Average	2005 Closing	2005 Average
Australian dollars	**5,30**	**4,83**	5,09	4,67
Euro	**9,17**	**7,89**	8,07	7,87
UK pounds	**13,20**	**11,51**	12,06	11,53
US dollars	**7,27**	**6,47**	6,68	6,15

26. EMPLOYEE BENEFITS

26.1 Post retirement benefits

The group has a number of retirement benefit plans for its eligible employees. These plans comprise both defined contribution and defined benefit plans. South African funds are governed by the Pension Funds Act, 1956 as amended.

Other funds are governed by the respective legislation of the country concerned. Approximately 20,6% (2005: 18,8%) of all employees are members of company funds. Of the remaining employees, 41,98% are members of provident funds administered by employee organisations within the industries in which they are employed.

Pension fund plans are evaluated by independent actuaries at intervals not exceeding three years. The latest valuations indicated that the plans were adequately funded in terms of the requirements of the Registrar of Pension Funds, and no changes to any rates were recommended.

	2006	2005
The principal group funds are:		
Number of members		
Grinaker-LTA Limited Retirement Plan	**3 003**	2 879
McConnell Dowell Corporation Limited Plan	**1 048**	718
Trident Steel Retirement Fund	**439**	465
The group's retirement benefit expense was R111,9 million (2005: R98,4 million).		
26.2 Defined benefit plan		
Valuation method:		
Projected unit credit method	**Yes**	Yes
Principal assumptions:		
Discount rate %	**8,50**	9,50
Expected return on assets %	**8,50**	9,50
General inflation %	**5,50**	5,50
Salary inflation %	**6,50**	6,50 +promotional
Present value of obligation:		
Opening balance at 1 July	**223,1**	199,0
Interest cost on opening balance	**19,7**	19,4
Current service cost		0,2
Actuarial gain/(loss)	**5,4**	20,9
Benefits paid	**(32,4)**	(16,4)
Closing balance at 30 June	**215,8**	223,1
Past service costs charges:		
Amount already vested		
Amount still to vest		
Total	**Nil**	Nil
Fair value of plan assets:		
Opening balance at 1 July	**269,3**	237,1
Expected return on fund assets	**24,0**	23,1
Contributions received		0,1
Actuarial gain	**18,5**	25,4
Benefits paid	**(32,3)**	(16,4)
Closing balance at 30 June	**279,5**	269,3
Net assets not recognised	**63,7**	46,2

26. EMPLOYEE BENEFITS (continued)

26.3 Executive share incentive scheme

In terms of the Aveng Limited Share Incentive Scheme, full-time employees of the company and any of its subsidiaries, including directors holding full-time salaried employment or office, are entitled under the scheme to hold 5% (presently 19 807 295 shares) of the issued share capital. No one participant may acquire shares in excess of 2% (presently 7 922 918 shares) of the issued share capital of the company.

	Number of shares 2006	Number of shares 2005
The movements during the year under review were as follows:		
Balance at the beginning of the year	**14 838 962**	14 524 513
Options granted or scheme shares allocated		3 320 000
Options exercised or allocation shares delivered	**(6 517 725)**	(2 688 913)
Options or scheme shares forfeited		(316 638)
Balance at the end of the year	**8 321 237**	14 838 962
Details of share options exercised and allocations taken up during the period:		
	R	R
Average subscription or purchase price	**7,17**	6,84
Range of market price at dates of exercising option or taking delivery	**12,43 – 25,17**	7,28 – 12,35

	Subscription price	**Number of shares 2006**	Number of shares 2005
The options outstanding at 30 June 2006 become unconditional between the following dates:			
1 September 2000 and 1 September 2008	3,60		755 000
17 April 2002 and 17 April 2010	6,90	**37 500**	645 000
25 May 2002 and 25 May 2010	6,10	**617 250**	1 420 000
1 September 2002 and 1 September 2010	6,20		410 000
29 November 2002 and 29 November 2010	5,80	**2 435 237**	4 208 212
1 October 2003 and 1 October 2011	7,55	**110 625**	505 000
23 October 2004 and 23 October 2012	9,11	**221 250**	492 500
23 March 2005 and 23 March 2013	8,61	**2 047 500**	2 550 750
1 October 2005 and 1 October 2013	8,55	**331 875**	492 500
1 October 2005 and 1 October 2013	8,70	**30 000**	40 000
1 October 2005 and 1 October 2013	7,20	**2 490 000**	3 320 000
		8 321 237	14 838 962

The right to take delivery or to exercise the option vests in tranches two years from the date of allocation at the rate of 25% each year for four years. Participants can defer exercising the options subject to the rules of the scheme but must exercise within ten years of the allocation date.

Should the option holder resign from a group company prior to the vesting dates as indicated above, the right to the shares or options will be forfeited.

The Aveng Limited Share Incentive Trust will be funded out of its own resources, if any, and/or loans to be made by employers of participants in accordance with the provisions of section 38(2) of the Act. The scheme held 6 910 930 ordinary shares at 30 June 2006. (2005 – 6 910 930 ordinary shares).

The trust's accounts are consolidated with the group figures.

The fair value of the options granted under the scheme are estimated at the date of the grant using the adjusted binomial pricing model.

The following assumptions were used in valuing the various option grants:

	2006	2005
Expected volatility	**31,6%**	21,32%
Risk free interest rate	*	*
Expected dividend yield	**1,00%**	1,10%

*Yield curve on the Bond Exchange of South Africa

27. BORROWING CAPACITY

In terms of the articles of association the borrowing powers of the group are unlimited.

28. RISK MANAGEMENT

The group does not trade in financial instruments but, in the normal course of operations, the group is exposed to currency, credit and liquidity risk. In order to manage these risks, the group may enter into transactions which make use of financial instruments. The group has developed a risk management process to facilitate, control, and monitor these risks. This process includes formal documentation of policies, including limits, controls and reporting structures.

Fair value

At 30 June 2006, the carrying amounts of all financial instruments approximated their fair values.

Credit risk

The group's only material exposure to credit risk is in its receivables and deposits and cash balances. Receivables represent amounts owing to the operating companies, and credit risk is managed at that level. The group has no significant concentration of credit risk. Deposits and cash balances are all kept at reputable financial institutions and limits are set throughout the group in this connection.

Trade debtors comprise of a number of customers, dispersed across different geographical areas. Ongoing credit evaluations are performed on the financial condition of these and other receivables. Trade debtors are presented net of the allowance for doubtful debts.

Interest rate risk

Deposits and cash balances all carry interest at rates that vary in response to prime. All other interest rate information is contained in the relative notes.

29. RELATED PARTIES

During the year the company and its subsidiaries, in the ordinary course of business, entered into various sale and purchase transactions with associates and joint ventures. Those transactions occurred under terms that are no less favourable than those arranged with third parties.

	2006 Rm	2005 Rm
The value of the transactions is as follows:		
Sales to Holcim South Africa (Pty) Limited	**16,8**	5,7
Purchases from Holcim South Africa (Pty) Limited	**77,5**	22,6
Amounts owed to related parties	**7,8**	
There were no related party transactions with directors or entities in which the directors have a material interest.		
Key management personnel		
– Short-term employee benefits	**139,5**	112,0
– Termination benefits	**1,2**	1,8
– Share-based payments	**105,0**	4,9
	245,7	118,7

For the year ended 30 June 2006	Salary R'000	Retirement fund contributions R'000	Other benefits R'000	Guaranteed remuneration R'000	Bonus R'000	**Total 2006 R'000**
30. DIRECTORS' REMUNERATION AND INTERESTS						
Directors' remuneration						
Executive directors						
BPJ Fourie	1 385	190	131	1 706	4 500	**6 206**
DR Gammie	1 497	187	143	1 827	925	**2 752**
C Grim	2 752	339	159	3 250	1 467	**4 717**
HDK Jones (Retired 31/03/06)	1 392	191	2 591	4 174		**4 174**
DG Robinson	2 032	312	47	2 391	1 325	**3 716**
	9 058	1 219	3 071	13 348	8 217	**21 565**

	Date on which sold	Average cost to executive	Spelling price	Gain	Number of options or shares	Taxed gain
Executive shares redeemed or taken up						
DR Gammie	Nov 05	6,53	18,40	11,87	576 250	6 840
C Grim	Nov 05	6,47	18,40	11,93	1 393 750	16 621
HDK Jones (Retired 31/03/06)	Mar 06	6,17	24,55	18,38	681 250	12 520
DG Robinson	Mar 06	5,80	24,55	18,75	75 000	1 406
					2 726 250	37 387

Interest of directors in contracts

A conflict of interest with regard to directors interest in contracts does not exist.

30. DIRECTORS' REMUNERATION AND INTERESTS (continued)

	Fees as director R'000	Chairman fees R'000	Attendance subsidiary boards R'000	Committee fees R'000	Other consulting fees R'000	**Total 2006 R'000**
Non-executive directors						
PL Erasmus (Retired 28/10/05)	26	11	7			**44**
L Gcabashe	107			16		**123**
JR Hersov	107			88		**195**
WE Lucas-Bull (Retired 31/03/06)	80	23		74	135	**312**
KW Meissner-Roloff	107					**107**
VZ Mntambo	107			45		**152**
RB Savage	107	59	216	146	194	**722**
BP Steele	107			159		**266**
	748	93	223	528	329	**1 921**

Annual fee by appointment at 30 June 2006	Meetings held	Planned meetings	Annual fees payable
Non-executive directors			
Directors fees	9	4	109
Board chairman	9	4	60
Deputy chairman	9	4	45
Audit committee	4	4	85
Audit committee – subs	4	4	27
Remuneration committee	4	3	16
Nomination committee	3	3	16
Tender risk evaluation committee	9	4	22
Subsidiary boards	8	8	109

30. DIRECTORS' REMUNERATION AND INTERESTS (continued)

Non-executive directors committee membership

	Aveng board	Audit and Risk	Remu-neration	Nomination	Tender risk	Subsidiary board and audit
PL Erasmus (Retired 28/10/05)	x		x	x		
L Gcabashe	x			x		
JR Hersov	x	x		x		
WE Lucas-Bull (Retired 31/03/06)	x	x	x			
KW Meissner-Roloff	x					
VZ Mntambo	x		x	x		
RB Savage	x	x	x	x	x	x
BP Steele	x	x			x	x

Executive directors fees are waived in favour of Aveng.

For the year ended 30 June 2005	Salary R'000	Retirement fund con-tributions R'000	Other benefits R'000	Guaranteed remuner-ation R'000	Bonus R'000	Total 2005 R'000
Executive directors						
BPJ Fourie	1 258	189	129	1 576	3 384	4 960
DR Gammie	1 171	146	153	1 470	300	1 770
C Grim	2 095	276	241	2 612	600	3 212
HDK Jones	1 701	177	255	2 133	300	2 433
DG Robinson (appointed 1/01/05)	1 003	151	45	1 199	350	1 549
PF Crowley (retired 23/11/04)	742	106	109	957		957
	7 970	1 045	932	9 947	4 934	14 881

30. DIRECTORS' REMUNERATION AND INTERESTS (continued)

	Fees as director R'000	Chairman fees R'000	Attendance subsidiary boards R'000	Committee fees R'000	Other group fees R'000	Total 2005 R'000
Non-executive directors						
PL Erasmus	103	42		70		215
L Gcabashe	103					103
JR Hersov	103			96		199
WE Lucas-Bull (appointed 1/01/05)	52			40	108	200
KW Meissner-Roloff	103					103
VZ Mntambo	103			40		143
RB Savage	103	57	206	131	31	528
BP Steele	103			105		208
CV Campbell (retired 29/10/04)	26			25		51
AR Mpungwe (retired 29/10/04)	26					26
M Taback (retired 29/10/04)	26					26
	851	99	206	507	139	1 802

Executive directors fees are waived in favour of Aveng.

Interest of directors of the company in share capital	**Ordinary shares 2006**	Ordinary shares 2005
Executive directors		
DR Gammie		143 128
C Grim		391 267
HDK Jones (Retired 31/03/2006)		25 000
	—	559 395
Non-executive directors		
BP Steele	**4 166**	4 166
Total	**4 166**	563 561
% of issued securities	**0,0%**	0,1%

Securities are beneficially held except those held by Mr BP Steele, whose interest is non-beneficial. The company has not been advised of any changes in the above interests during the period 1 July 2006 to the date of this report.

	Date from which exercisable	Date on which expires	Price	Number entitled to at 30 June 2005	Number granted during the year	Number redeemed or taken up during the year	**Number entitled to at 30 June 2006**
30. DIRECTORS' REMUNERATION AND INTERESTS (continued)							
Executive share incentive scheme							
DR Gammie	Sep 00	Sep 08	3,60	105 000		105 000	
	Sep 02	Sep 10	6,20	78 750		78 750	
	Oct 03	Oct 11	7,55	105 000		78 750	**26 250**
	Oct 04	Oct 12	9,11	105 000		52 500	**52 500**
	Sep 05	Oct 13	8,55	105 000		26 250	**78 750**
	Sep 05	Oct 13	7,20	235 000		235 000	
	Sep 06	Oct 14	7,20	235 000			**235 000**
	Sep 07	Oct 15	7,20	235 000			**235 000**
	Sep 08	Oct 16	7,20	235 000			**235 000**
C Grim	Sep 00	Sep 08	3,60	275 000		275 000	
	Sep 02	Sep 10	6,20	206 250		206 250	
	Oct 03	Oct 11	7,55	275 000		206 250	**68 750**
	Oct 04	Oct 12	9,11	275 000		137 500	**137 500**
	Sep 05	Oct 13	8,55	275 000		68 750	**206 250**
	Sep 05	Oct 13	7,20	500 000		500 000	
	Sep 06	Oct 14	7,20	500 000			**500 000**
	Sep 07	Oct 15	7,20	500 000			**500 000**
	Sep 08	Oct 16	7,20	500 000			**500 000**
HDK Jones (Retired 31/03/06)	Sep 00	Sep 08	3,60	125 000		125 000	
	Apr 02	Apr 10	6,90	250 000		250 000	
	Seo 02	Sep 02	6,20	62 500		62 500	
	Nov 02	Nov 10	5,80	150 000		150 000	
	Oct 03	Oct 11	7,55	62 500		46 875	**15 625**
	Oct 04	Oct 12	9,11	62 500		31 250	**31 250**
	Sep 05	Oct 13	8,55	62 500		15 625	**46 875**
DG Robinson	Nov 00	Dec 08	5,80	75 000		75 000	
				5 595 000		2 726 250	**2 868 750**

31. RESTATEMENTS, CHANGES IN ACCOUNTING POLICY AND COMPARATIVES

IFRS 2: *Share-Based Payments*

The group adopted IFRS 2: *Share-Based Payments* during the current financial reporting period. The adoption of this statement resulted in a change in the accounting policy for share-based payments retrospectively for all periods beginning on or after 1 January 2005.

The adoption of this accounting policy resulted in an increase in the liability carried in respect of cash settled share-based payments as reflected below.

	Effect	2006 Rm	2005 Rm
Balance sheet effect (cumulative)			
Distributable reserves	Decrease	**76,6**	63,4
Provision for share-based payment liability	Increase	**107,9**	89,3
Deferred tax asset	Increase	**31,3**	25,9
Income statement effect (current year)			
Operating expenses	Increase	**18,5**	57,3
Taxation	Decrease	**5,4**	16,6

Comparatives

Comparatives have been restated as a result of IFRS 2.

Company Balance sheet

at 30 June 2006

	Note	2006 Rm	2005 Rm
ASSETS			
Non-current assets			
Property, plant and equipment	A	**0,7**	0,8
Investment in associates and joint ventures	B	**101,7**	101,7
Investment in subsidiary companies	C	**2 342,2**	2 342,2
Deferred tax	K	**15,6**	9,8
		2 460,2	2 454,5
Current assets			
Trade and other receivables		**0,1**	
Amounts owing by subsidiaries	D	**1,170,1**	1,120,5
Taxation receivable			1,2
Cash and cash equivalents	L3	**591,0**	175,3
		1 761,2	1 297,0
TOTAL ASSETS		**4 221,4**	3 751,5
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	E	**19,8**	19,8
Share premium	F	**940,1**	940,1
Non-distributable reserves		**(53,9)**	(59,5)
Equity instruments	G	**139,9**	
Distributable reserves		**1 214,0**	780,1
Total shareholders' funds		**2 259,9**	1 680,5
Non-current liabilities			
Interest-bearing borrowings	G	**860,1**	1 000,0
		860,1	1 000,0
Current liabilities			
Trade and other payables	H	**78,7**	58,5
Amounts owing to subsidiaries	D	**1 012,1**	1 012,5
Taxation		**10,6**	
		1 101,4	1 071,0
TOTAL EQUITY AND LIABILITIES		**4 221,4**	3 751,5

Company Income statement

for the year ended 30 June 2006

	Note	2006 Rm	2005 Rm
Revenue	I	**661,9**	362,7
Operating expenses		**57,4**	65,3
Operating profit	J	**604,5**	297,4
Profit on sale of investments			143,2
(Loss)/Profit on foreign exchange – realised		**(9,1)**	12,4
– unrealised			6,2
Operating income		**595,4**	459,2
Interest paid		**62,9**	51,8
Profit before taxation		**532,5**	407,4
Taxation	K	**7,6**	(7,0)
Profit for the period		**524,9**	414,4

Company Statement of changes in equity

for the year ended 30 June 2006

	Share capital Rm	Share premium Rm	Non-distributable reserves Rm	Equity instruments Rm	Distributable reserves Rm	Total Rm
Balance at 1 July 2004 as previously stated	19,8	940,1	(59,5)		428,5	1 328,9
Effect of adoption of IFRS 2					(7,3)	(7,3)
Balance at 1 July 2004 as restated	19,8	940,1	(59,5)		421,2	1 321,6
Profit for 2005 as previously stated					421,9	421,9
IFRS 2 adjustment 2005					(7,5)	(7,5)
Dividends paid					(55,5)	(55,5)
Balance at 30 June 2005 restated	19,8	940,1	(59,5)		780,1	1 680,5
Profit for the year 2006					524,9	524,9
Dividends paid					(91,0)	(91,0)
Equity portion of convertible bonds				139,9		139,9
Foreign currency translation			5,6			5,6
Balance at 30 June 2006	19,8	940,1	(53,9)	139,9	1 214,0	2 259,9

Note: The non-distributable reserves consist of a capital redemption reserve fund.

Company Cash flow statement

for the year ended 30 June 2006

	Note	2006 Rm	2005 Rm
Cash retained from operating activities		**415,9**	49,3
Cash generated by operations	L1	**60,9**	41,2
Income from investments	I	**609,2**	346,1
(Increase) in net current assets	L2	**(98,7)**	(228,6)
Cash generated by operating activities		**571,4**	158,7
Interest paid		**(62,9)**	(51,8)
Taxation paid	L4	**(1,6)**	(2,1)
Cash available from operating activities		**506,9**	104,8
Dividend paid		**(91,0)**	(55,5)
Investing activities			
Long-tem advances to subsidiaries			(422,4)
Investment in subsidiaries and businesses			496,0
Investment in property, plant and equipment	A	**(0,2)**	(0,9)
Investment in loans to group companies			(496,0)
		(0,2)	(423,3)
Financing activities			
Long-term borrowings raised	G		1 000,0
Long-term borrowings repaid to group companies			(4,0)
			996,0
Net increase in cash and cash equivalents		**415,7**	622,0
Cash and cash equivalents at beginning of year		**175,3**	(446,7)
Cash and cash equivalents at end of year	L3	**591,0**	175,3

	2006 Rm	2005 Rm
A. PROPERTY, PLANT AND EQUIPMENT		
OWNED PLANT, EQUIPMENT AND VEHICLES		
Beginning of the year		
– Cost	**1,8**	1,5
– Accumulated depreciation	**(1,0)**	(0,9)
Net book value 2005	**0,8**	0,6
Current year movements		
– Additions	**0,2**	0,3
– Depreciation	**(0,3)**	(0,1)
Net book value 2006	**0,7**	0,8
Made up as follows:		
– Cost	**2,0**	1,8
– Accumulated depreciation	**(1,3)**	(1,0)
– Net book value 2006	**0,7**	0,8
B. INVESTMENT IN ASSOCIATES AND JOINT VENTURES		
Balance at beginning of year	**101,7**	101,7
Balance at end of year	**101,7**	101,7
Comprising:		
– Unlisted shares at cost	**101,7**	101,7
The directors' valuation of unlisted shares is not less than their carrying value.		
C. INVESTMENT IN SUBSIDIARIES		
Balance at beginning of year	**2 342,2**	2 004,4
Investments purchased		690,6
Investments sold		(352,8)
Balance at end of year	**2 342,2**	2 342,2
Comprising:		
– Unlisted shares at cost	**2 342,2**	2 342,2
	2 342,2	2 342,2

The directors' valuation of unlisted shares is not less than their carrying value.

	2006 Rm	2005 Rm
D. AMOUNTS OWING BY SUBSIDIARIES		
Balance at beginning of year	**1 120,5**	827,1
Current year movements	**49,6**	293,4
Balance at end of year	**1 170,1**	1 120,5
Comprising:		
– Interest bearing	**992,0**	995,5
– Non interest bearing	**178,1**	125,0
	1 170,1	1 120,5
AMOUNTS OWING TO SUBSIDIARIES		
Balance at beginning of year	**1 012,5**	1 161,9
Current year movements	**(0,4)**	(149,4)
Balance at end of year	**1 012,1**	1 012,5
Comprising:		
– Non interest bearing	**1 012,1**	1 012,5
	1 012,1	1 012,5
Interest is charged at normal commercial rates. These loans have no fixed terms of repayment.		
E. SHARE CAPITAL		
Authorised		
Ordinary share capital		
882 034 263 ordinary shares of 5 cents each	**44,1**	44,1
Issued		
Balance at beginning of year		
396 145 908 (2005: 396 145 908) ordinary shares of 5 cents each	**19,8**	19,8
Balance at end of year		
Ordinary share capital		
396 145 908 (2005: 396 145 908) ordinary shares of 5 cents each	**19,8**	19,8
F. SHARE PREMIUM		
Balance at beginning of year	**940,1**	940,1
Balance at end of year	**940,1**	940,1

G. INTEREST-BEARING BORROWINGS

The R1billion convertible bond is currently accounted for as combined borrowings and equity. This treatment will continue until the conversion of the instrument into equity. Approval for this conversion into Aveng Limited shares was granted at the annual general meeting, which was held on 28 October 2005. Aveng Limited shares placed under the control of the directors for the conversion were 65 487 885.

The bonds are initially convertible into cash with reference to the volume weighted average price of an Aveng Limited share, over a 20 dealing day period.

Unless previously purchased and cancelled, redeemed or converted, the bonds will be redeemed on 17 March 2012.

Aveng has the option to redeem all the bonds on or after 17 March 2009, when the Aveng Limited share price is equivalent to R19,85 per share over a period of more than 20 dealing days during any period of 30 consecutive dealing days.

The effect of the conversion is as follows:

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Balance sheet							
Equity	140	140	140	140	140	140	140
Liability	860	876	894	912	933	955	979
Deferred taxation	2	7	12	18	24	31	38
Income statement							
Interest expense	39	78	79	81	83	84	86
Deferred taxation credit	(2)	(5)	(5)	(6)	(6)	(7)	(7)

	2006 Rm	2005 Rm
H. TRADE PAYABLES AND PROVISIONS		
Trade and other payables	**7,0**	6,9
Accrued expenses and interest payable	**36,6**	30,7
IFRS 2 share-based payment provision	**35,1**	20,9
	78,7	58,5
I. REVENUE		
Turnover	**52,7**	16,6
Dividends – unlisted	**437,3**	218,8
Dividends – preference	**68,8**	61,7
Interest – investments	**11,1**	1,2
Interest – subsidiary companies	**92,0**	64,4
Income from investments	**609,2**	346,1
Total revenue	**661,9**	362,7

	2006 Rm	2005 Rm
J. OPERATING INCOME DISCLOSURES		
In arriving at operating income the following items have been taken into account:		
Auditors remuneration		
– fees for audit	**1,1**	0,8
Depreciation	**0,3**	0,1
Operating lease expenses	**0,9**	0,4
Remuneration services – managerial, secretarial, financial, technical	**0,2**	0,5
Contributions to retirement contribution funds	**1,0**	0,6
K. TAXATION		
South African – taxation normal	**13,4**	0,1
South African – taxation deferred	**(5,8)**	(6,8)
Foreign – withholding tax		(0,3)
	7,6	(7,0)
Reconciliation of rate of taxation (%)		
Standard rate	**29,0**	29,0
Exempt income	**(26,8)**	(29,0)
Effective rate of taxation for the year	**2,2**	
Deferred taxation		
At the beginning of the year	**9,8**	3,0
Transfer from/(to) income statement – current year	**5,8**	6,8
At the end of the year	**15,6**	9,8
Comprising:		
Timing differences	**5,4**	3,6
Foreign withholding taxes		0,1
Effect of adoption of IFRS 2	**10,2**	6,1
	15,6	9,8

The company has estimated unused credits in respect of secondary tax on companies amounting to R789,2 million (2005: R509,2 million)

	2006 Rm	2005 Rm
L. NOTES TO THE CASH FLOW STATEMENT		
L1 Cash generated from operations		
Income before interest paid and taxation	**595,4**	469,8
Adjusted for:		
– depreciation	**0,3**	0,1
– foreign tax credit		(1,1)
– foreign currency translation reserve	**5,6**	
– income from investments	**(609,2)**	(346,1)
– non-cash preference dividend receivable	**68,8**	61,7
– profit on sale of investments		(143,2)
	60,9	41,2
L2 Decrease/(increase) in net current assets		
(Increase)/Decrease in trade and other receivables	**(0,1)**	10,7
Increase in trade and other payables	**20,2**	33,4
(Increase) in amounts owing to/from subsidiaries	**(118,8)**	(272,7)
	(98,7)	(228,6)
L3 Cash and cash equivalents		
Deposits and cash at bank	**591,0**	175,3
	591,0	175,3
L4 Taxation paid		
Opening balance	**(1,2)**	2,2
Current years charge	**13,4**	(0,2)
Foreign tax credit		(1,1)
Closing balance	**(10,6)**	1,2
Paid during the year	**1,6**	2,1

M. RESTATEMENTS, CHANGES IN ACCOUNTING POLICY AND COMPARATIVES

IFRS 2: *Share-Based Payments*

The company adopted IFRS 2: *Share-Based Payments* during the current financial reporting period. The adoption of this statement resulted in a change in the accounting policy for share-based payments retrospectively for all periods beginning on or after 1 January 2005.

The adoption of this accounting policy resulted in an increase in the liability carried in respect of cash settled share-based payments as reflected below.

	Effect	**2006 Rm**	2005 Rm
Balance sheet effect (cumulative)			
Distributable reserves	Decrease	**24,9**	14,8
Provision for share based payment liability	Increase	**35,1**	20,9
Deferred tax asset	Increase	**10,2**	6,1
Income statement effect (current year)			
Operating expenses	Increase	**14,2**	10,6
Taxation	Decrease	**4,1**	3,1

Comparatives

Comparatives have been restated as a result of IFRS 2.

	Issued share capital		% held		Investment value		Net indebtedness due by/(to) companies	
	2006 **Rm**	2005 Rm	**2006**	2005	**2006** **Rm**	2005 Rm	**2006** **Rm**	2005 Rm
DIRECT SUBSIDIARIES AND INVESTMENTS IN JOINT VENTURES								
Aveng Australia Holdings Pty Limited	**730,9**	730,9	**100,0**	100,0	**768,8**	768,8	**0,6**	47,6
Altur Investments (Pty) Limited*	**2,6**	2,6	**45,6**	45,6	**101,7**	101,7		
Aveng Management Company (Pty) Limited (Dormant)			**100,0**	100,0			**(102,0)**	(102,0)
Grinaker-LTA Properties (Pty) Limited			**75,0**	75,0				
Grinaker-LTA Intellectual Property (Pty) Limited			**100,0**	100,0	**15,0**	15,0		
Grinaker-LTA Limited	**28,7**	28,7	**75,0**	75,0	**1 058,1**	1 058,1	**847,0**	882,1
Qakazana Investment Holdings (Pty) Limited	**0,1**	0,1			**496,0**	496,0	**108,6**	61,7
Steelmetals (Pty) Limited (Dormant)	**1,6**	1,6	**100,0**	100,0	**3,9**	3,9	**35,3**	49,6
Trident Steel Holdings (Pty) Limited			**75,0**	75,0	**0,4**	0,4	**(764,3)**	(836,6)
Loan to the Aveng Limited Share Purchase Trust			**100,0**	100,0			**32,8**	5,6
					2 443,9	2 443,9	**158,0**	108,0
Holcim (South Africa) (Pty) Limited			**45,6**	45,6				

[100% held through Altur Investments (Pty) Limited]

Its principal business is the production of cement and related materials

Reg No	Company	Country of incorporation or registration (if not RSA)	% holding	Group effective % holding at Aveng level
2001/018197/07	Empowa Grinaker-LTA (Pty) Limited		50,0	37,5
1964/009785/06	E+PC Engineering & Projects Company Limited		100,0	75,0
2002/020961/07	Ensimbini Reinforcing (Pty) Limited		20,0	15,0
892/59	Fort Concrete (Private) Limited	Zimbabwe	80,0	60,0
2004/003554/07	Fraser & Chalmers Siyakha (Pty) Limited		74,9	56,2
11258	Grinaker-LTA Angola SARL	Angola	49,0	36,7
1325	Grinaker-LTA Botswana (Pty) Limited	Botswana	100,0	75,0
42564	Grinaker-LTA Construction (Zambia) Limited	Zambia	100,0	75,0
1935/007433/06	Grinaker-LTA Construction and Development Limited		100,0	75,0
RC 365 851	Grinaker-LTA Construction Nigeria Limited	Nigeria	100,0	75,0
1963/006056/06	Grinaker-LTA Engineering and Mining Services Limited		100,0	75,0
2000/025312/07	Grinaker-LTA Intellectual Property (Pty) Limited		100,0	100,0
19805/3729	Grinaker-LTA International Construction Limited	Mauritius	100,0	75,0
20326/4162	Grinaker-LTA International Holdings Limited	Mauritius	100,0	75,0
1931/003300/06	Grinaker-LTA Limited		75,0	75,0
400060142	Grinaker-LTA Mozambique Limitada	Mozambique	100,0	75,0
1178	Grinaker-LTA (Namibia) (Pty) Limited	Namibia	100,0	75,0
2003/125	Grinaker-LTA Precast (Namibia) (Pty) Limited	Namibia	100,0	75,0
2001/000387/07	Grinaker-LTA Properties (Pty) Limited		100,0	100,0
2003/027275/07	Grinaker-LTA Vuselela Spares Supply (Pty) Limited		49,0	36,8
1868	Grünwald Construction (Pty) Limited	Botswana	100,0	75,0
1934/005750/07	Holcim (South Africa) (Pty) Limited		45,6	45,6
631/1994	Infraset Swazi (Pty) Limited	Swaziland	100,0	75,0
9666	Infraset Zambia Limited	Zambia	90,0	67,5
80/148	Karibib Mining and Construction Company (Namibia) Limited	Namibia	100,0	75,0
1979/003513/07	KZN Reinforcing and Fixing Services (Pty) Limited		33,3	25,0

Reg No	Company	Country of incorporation or registration (if not RSA)	% holding	Group effective % holding at Aveng level
2003/016205/07	Lennings DEC Rail Services (Pty) Limited		70,0	52,5
2002/003353/07	Lesedi Tracks (Pty) Limited		30,0	22,5
77/129	Lesotho Reinforcing (Pty) Limited	Lesotho	100,0	75,0
33917	LTA Construction (Tanzania) Limited	Tanzania	100,0	75,0
	LTA Mali SA	Mali	100,0	75,0
198/68	LTA Zimbabwe (Private) Limited	Zimbabwe	100,0	75,0
1987/001794/07	MacIntosh Property Holding Company (Pty) Limited		100,0	75,0
ABN008444880	McConnell Dowell Corporation Limited	Australia	100,0	100,0
1996/017767/06	Megchem Holdings Limited		50,0	37,5
2002/029255/07	Misa Scaffolding (Pty) Limited		100,0	75,0
2002/742	Moolman Mining Botswana (Pty) Limited	Botswana	100,0	75,0
	Moolman Mining Guinea SA	Guinea	100,0	75,0
	Moolman Mining Yatela SA	Mali	100,0	75,0
1994/008337/06	Northern Toll Road Construction Limited		24,0	18,0
9745	Rehm Grinaker Construction Limited	Mauritius	43,0	32,2
81/00025/07	Reinforcing and Allied Industries (Namibia) (Pty) Limited	Namibia	100,0	75,0
1966/005453/07	Reinforcing Fixing Services (Pty) Limited		33,3	24,8
2003/027293/07	Rekaofela Refractory Services (Proprietary) Limited		70,0	52,5
1978/003880/07	RPP Developments (Proprietary) Limited		100,0	75,0
1958/001568/07	Sivukile Contractors (Pty) Limited		29,1	21,8
1952/001450/07	Steelmetals (Pty) Limited		100,0	100,0
1986/000415/07	Toll Highway Development Company (Pty) Limited		100,0	75,0
1996/013593/07	Transfab Engineering (Pty) Limited		50,0	37,5
1972/006101/07	Trident Steel (Pty) Limited		100,0	75,0
2000/024996/07	Trident Steel Intellectual Property (Pty) Limited		100,0	75,0
2001/017592/07	Wedelin Investments 46 (Pty) Limited		60,0	52,5

Notice is hereby given that the sixty-second annual general meeting of Aveng Limited (the "company") will be held at Block B, 204 Rivonia Road, Morningside on Friday, 27 October 2006 at 12:00 for the following purposes:

1. To receive and consider the company's and the group's annual financial statements for the year ended 30 June 2006;
2. To re-elect Ms L Gcabashe who retires in accordance with the company's articles of association and, being eligible, offers herself for re-election;
3. To re-elect Mr VZ Mntambo who retires in accordance with the company's articles of association and, being eligible, offers himself for re-election;
4. To re-elect Mr RB Savage who retires in accordance with the company's articles of association and, being eligible, offers himself for re-election;
5. To re-elect Mr BP Steele who retires in accordance with the company's articles of association and, being eligible, offers himself for re-election;
6. To re-elect Mr AWB Band, who retires in accordance with the company's articles of association and, being eligible, offers himself for re-election;
7. To re-elect Mr MJD Ruck, who retires in accordance with the company's articles of association and, being eligible, offers himself for re-election;
8. To consider and, if deemed fit, to pass with or without modification, the following resolutions:

Ordinary resolution

"Resolved as an ordinary resolution that:

1. the annual fees payable to the non-executive directors be increased with effect from 1 October 2006 by 7%, from R109 000 per annum to R117 000 per annum (rounded to the nearest R1 000);
2. the annual fees payable for chairing the board, acting as deputy chairman of the board, chairing and serving on committees of the board, serving on the boards and audit committees of subsidiaries and attending meetings of such boards, be increased by 7%, with effect from 1 October 2006 (rounded to the nearest R1 000), in accordance with the table below.

Directors' fees		**2006 R**	2007 R
Audit committee	– Aveng Limited	**85 000**	91 000
	– subsidiaries	**27 000**	29 000
Board chairman		**60 000**	64 000
Deputy chairman		**45 000**	48 000
Board fee	– Aveng Limited	**109 000**	117 000
	– subsidiaries	**109 000**	117 000
Chairman fee	– nomination committee	**10 000**	11 000
	– remuneration committee	**10 000**	11 000
Nomination committee fee		**16 000**	17 000
Remuneration committee fee		**16 000**	17 000
Tender risk evaluation committee fee		**22 000**	24 000

Any member who owns certificated ordinary shares in the company or who holds dematerialised ordinary shares in the company through a Central Securities Depository Participant (CSDP) or broker and has selected "own name" registration, may attend, speak and vote at the annual general meeting or may appoint any other person or persons (none of whom need be a member) as a proxy or proxies, to attend, speak and vote or abstain from voting at the annual general meeting in such member's stead.

Duly completed proxy forms should be forwarded to reach the transfer secretaries of the company by not later than 12:00 on Thursday, 26 October 2006.
Should any member who holds dematerialised ordinary shares in the company and has not selected "own name" registration, wish to attend, speak and vote at the annual general meeting, such member should timeously inform his CSDP or broker for the purposes of obtaining the necessary authority from such member's CSDP or broker to attend the annual general meeting or timeously provide such member's CSDP or broker with such member's voting instruction in order for the CSDP or broker to vote on such member's behalf at the annual general meeting.

By order of the board

GJ Baxter
Company secretary

Morningside, Sandton
8 September 2006

Change of address

Members are requested to notify any change of address to:
Computershare Investor Services 2004 (Proprietary) Limited
PO Box 61051
Marshalltown, 2107
South Africa

Aveng Limited

Registration number 1944/018119/06 (the "company")

For use at the sixty-second annual general meeting of the company to be held at Block B, 204 Rivonia Road, Morningside, Sandton, 2057 on Friday, 27 October 2006 at 12:00, or at any adjournment thereof (the "annual general meeting").
Only for use by the owners of certificated ordinary shares in the company and/or dematerialised ordinary shares in the company held through a Central Securities Depository Participant (CSDP) or broker who have selected "own name" registration.

Holders of dematerialised ordinary shares in the company who have not selected "own name" registration must inform their CSDP timeously of their intention to attend and vote at the annual general meeting or to be represented by proxy thereat in order for the CSDP to issue them with the necessary authorisation to do so or provide the CSDP timeously with their voting instructions should they not wish to attend the annual general meeting in order for the CSDP to vote in accordance with their instructions at the meeting.

I/We

(NAME IN BLOCK LETTERS)

of

(ADDRESS)

being the owner/s of ordinary shares, hereby appoint (see note 1)

1. of or failing him

2. of or failing him

3. the chairman of the company, or failing him the chairman of the annual general meeting, as my/our proxy to attend and speak for me/us on my/our behalf and to vote or abstain from voting on my/our behalf at the annual general meeting.

I/We desire to vote as follows (see note 2):

	For	Against	Abstain
1. To re-elect Ms L Gcabashe as a director			
2. To re-elect Mr VZ Mntambo as a director			
3. To re-elect Mr RB Savage as a director			
4. To re-elect Mr BP Steele as a director			
5. To re-elect Mr AWB Band as a director			
6. To re-elect Mr MJD Ruck as a director			
7. Ordinary resolution – Fees of directors			

Signed at on 2006

Signature

Assisted by me, where applicable (name and signature)

Please refer to the notes on the back of this form of proxy

Notes to the proxy

1. A member is entitled to appoint one or more proxies (none of whom need be a member of the company) to attend, speak and vote or abstain from voting in the place of that member at the annual general meeting. A member may therefore insert the name of a proxy or the names of two alternative proxies of the member's choice in the space provided, with or without deleting "the chairman of the company, or failing him the chairman of the annual general meeting". The person whose name stands first on the proxy form and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.

2. A member's instructions to the proxy must be indicated by the insertion of an "X" in the appropriate box. Failure to comply with the above will be deemed to authorise the chairman of the company or failing him the chairman of the annual general meeting, if he is the authorised proxy, to vote in favour of the resolutions at the annual general meeting, and any other proxy to vote or abstain from voting at the annual general meeting as he deems fit, in respect of the member's total holding.

3. The completion and lodging of this form of proxy will not preclude a member from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such member wish to do so.

4. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders, for which purpose seniority will be determined by the order in which the names stand in the company's register of members in respect of the joint holding.

5. The chairman of the annual general meeting may reject or accept any form of proxy which is completed and/or received otherwise than in accordance with these notes.

6. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the company's transfer secretaries or waived by the chairman of the annual general meeting.

7. Any alteration or correction made to this form of proxy must be initialled by the signatory/ies.

8. This form of proxy must be lodged with or posted to the company's transfer secretaries, Computershare Investor Services 2004 (Proprietary) Limited, 70 Marshall Street, Johannesburg, 2001, South Africa (PO Box 61051, Marshalltown, 2107, South Africa), to be received by not later than 12:00 on Thursday, 26 October 2006.

9. This proxy form is to be completed only by those members who either own shares in a certificated form, or whose shares are recorded in their own name in electronic format in the sub-register.

Secretary
GJ Baxter

Business address and registered office
Block B
204 Rivonia Road
Morningside
Sandton, 2057
PO Box 6062, Rivonia, 2128
South Africa
Telephone +27 11 779 2800
Telefax +27 11 784 5030

Company registration number
1944/018119/06

Share codes
JSE: AEG
ISIN: ZAE 000018081

Website
www.aveng.co.za

Auditors
Ernst & Young
Practice number: 918 288
Wanderers Office Park
52 Corlett Drive, Illovo, 2196
Private Bag X14, Northlands, 2116
South Africa
Telephone +27 11 772 3000
Telefax +27 11 772 4000

Bankers
ABSA Bank Limited
Australia and New Zealand Banking Group Limited
Barclays Bank PLC
Commerzbank AG
Crédit Agricole Indosuez
FirstRand Bank Limited
Investec Bank Limited
Nedbank Limited
The Standard Bank of South Africa Limited

Corporate legal advisers
Taback & Associates (Pty) Limited
Registration number: 2000/010434/07
26 Sturdee Avenue
Rosebank, 2196
South Africa
Telephone +27 11 219 6400
Telefax +27 11 219 6500

Routledge Modise Moss Morris
2 Pybus Road (Cnr Rivonia Road)
Sandton, 2196
South Africa
Telephone +27 11 286 6900
Telefax +27 11 286 6901

Sponsor
J.P.Morgan Equities Limited
Registration number: 1995/011815/06
1 Fricker Road (Cnr Hurlingham Road)
Illovo, 2196
South Africa
Telephone +27 11 507 0300
Telefax +27 11 507 0770

Registrars
Computershare Investor Services 2004 (Pty) Limited
Registration number: 2004/003647/07
70 Marshall Street, Johannesburg
PO Box 61051, Marshalltown, 2107
South Africa
Telephone +27 11 370 5000
Telefax +27 11 370 5560